KenGen
Energy for the nation.

Investing in Sustainable Energy

INTEGRATED ANNUAL REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Our Vision

To be the market leader in the provision of reliable, safe, quality and competitively priced electric energy in the Eastern Africa region.

Our Mission

To efficiently generate competitively priced electric energy using state of the art technology as well as skilled and motivated human resources to ensure financial success. We shall achieve market leadership by undertaking least cost and environmentally friendly capacity expansion. Consistent with our corporate culture, core values will be adhered to in all our operations.

Our Core Values

- Team Spirit
- Integrity
- Safety Culture
- Professionalism

Our Corporate Theme

“BUILD

Build relationship, resources, capacity, leadership and health.

“BRING OUT THE BEST

Brings out the best in KenGen a reputation worth greatness.

“BE PRESENT

Be present in our engagements with both internal and external stakeholders.

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Energy for the nation.

Inside this Report

This report is also available online. For greater insight into the Company, visit our corporate website:
www.kengen.co.ke

About this Report

This integrated report is KenGen's primary communication to shareholders and stakeholders on our performance and prospects. The report provides a review of the material issues encountered by the organization, addressed based on key operational, financial, economic, social and environmental aspects. The report also details how these issues are being managed through our governance, our engagements as well as the application of our risks and opportunities matrix. This is our value creation story.

Scope and Boundary

Our strategy as well as material issues identified form the anchor of the report and determine its content. The report covers the period 1 July 2017 to 30 June 2018 and provides commentary, performance measures and prospects for strategic operations. The structure and layout of this report draws on the International Integrated Reporting Framework. Material events up to the date of approval have been included. For a comprehensive overview of our financial performance, the integrated report should be read in conjunction with our annual financial statements.

Assurance and Audit Approach

The Company has put in place a robust governance oversight and risk management framework. Our combined assurance model takes a three-pronged approach comprising a review by management, supplemented by internal and external auditors. The Audit, Risk & Compliance Committee, as delegated by the Board, relies on the combined assurance in forming their view of the adequacy of our risk management and internal controls. The annual financial statements are audited by the Auditor General, who has issued an unqualified opinion.

Financial and Non-Financial Information

We apply International Financial Reporting Standards (IFRS) and comply with the listing requirements of the Capital Markets Authority (CMA), the Nairobi Securities Exchange (NSE), the Companies Act 2015 and the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015.

Board Responsibility and Approval

The Board is accountable for the integrity and completeness of the integrated report and any additional Information. The Audit, Risk & Compliance Committee of the Board ensures the integrity of the report and has applied its collective mind to its preparation and presentation. Having considered the completeness of the material items dealt with and the reliability of information presented, based on the combined assurance process followed, the Board approved the annual financial statements on 25 October 2018.

Energy Sold
7,989 GWhs
▲6%

Revenue
KShs 45,290 Mn
▲4.2%

EBITDA
KShs 21,590 Mn
▼5.3%

PBT
KShs 11,746 Mn
▲2.5%

Total Assets
KShs 379,353Mn
▲1%

CAPEX
KShs 15,311Mn
▲13.3%

Proposed Dividend
KShs 2,638 Mn
33% pay-out

PAT
KShs 7,891 Mn
▼12.4%

EBITDA - Earnings before interest, tax, depreciation and amortization
PBT - Profit before tax
PAT - Profit after tax
CAPEX - Capital expenditure

About KenGen

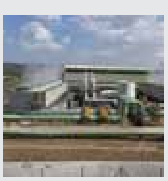
In 1954, Kenya Electricity Generating Company (KenGen) was incorporated under the Kenyan Companies Act as Kenya Power Company (KPC) with the mandate to generate electricity through the development, management and operation of power plants. The shareholders of the Company later contracted East Africa Power & Lighting Company (EAP&L) to manage KPC. EAP&L changed to Kenya Power & Lighting Company (KPLC) in 1983.

In 1996, the Government of Kenya commenced restructuring of the energy sector with the aim of achieving efficient use of resources dedicated towards generation, transmission and distribution of electricity. The management of KPC was officially separated from KPLC and renamed KenGen in January 1998.

In 2006, the government sold 30% of its stake in the Company through a successful Initial Public Offer (IPO) and KenGen was listed on the Nairobi Securities Exchange (NSE). The Company continues to maximize shareholder value through profitability and maintaining a sustainable growth path. In pursuit of our strategic objectives, shareholders were given another opportunity to exercise their rights in a successful rights issue in 2016.

Our business is to deliver affordable clean energy and create wealth for shareholders while building a resilient and sustainable business through investment in various energy sources and revenue streams. With an installed capacity of 1,631MW and a market share of 80% of national energy consumption, we have firmly cemented our position as the largest power producer in the country. We have strengths of scale and expertise, proven by an exceptional record of accomplishment and service. In pursuit of our vision, we are transforming the way we manage our operations to propel or business in the right direction.

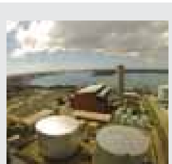
OUR GENERATION CAPACITY



GEOTHERMAL
533.9MW

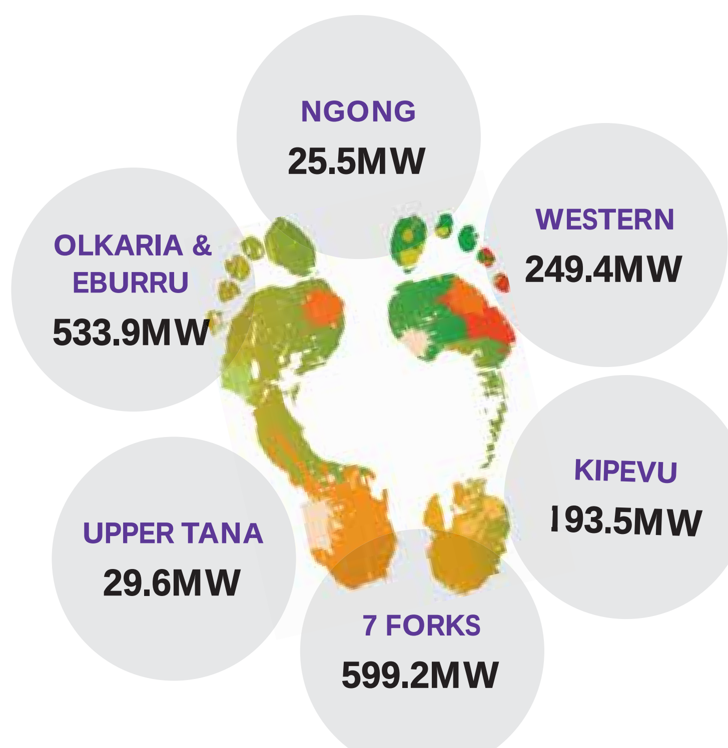
WIND
25.5MW

HYDRO
818.2MW



THERMAL
253.5MW

OUR FOOTPRINT



KenGen's footprint spans across six operational areas: The geothermal area consists of power plants & wellheads running as baseload energy sources in Olkaria and Eburru in the Rift Valley. The area has an installed capacity of 533.9MW. The Western region consists of four hydro stations and a thermal plant: Turkwel, Sondu Miriu, Sangoro, Gogo and Muhoroni. The area has a total installed capacity of 249.4MW. Kipevu area has two thermal plants located in Mombasa County with an installed capacity of 193.5MW. The Seven Forks has five power plants along the Tana River. The lower Tana River has been harnessed to provide 599.2MW of electric power to Kenya. The plants comprise Masinga. Gitaru, Kindaruma, Kiambere and Kamburu power stations. The upper Tana River has been developed to produce 29.6MW comprising four power plants namely, Tana, Wanjii, Sagana and Mesco. Hydro is the leading source, with an installed capacity of about 818.2MW, which is 50% of the Company's installed capacity. Geothermal comes second with 533.9MW out of which 83.6MW comes from the innovative wellheads technology. This places geothermal capacity at 32% of our installed capacity. Ngong wind plants are in the Central Office region with an installed capacity of 25.5MW. During the year, the Gas Turbine was successfully relocated to Muhoroni to provide grid stability support to the western region.

The Company has focused on renewable energy development and has a target to install an additional capacity of 721MW of clean green and renewable energy by 2025. This will firmly crown Kenya as the only African country in the Geothermal Gigawatt Club.

Significant Strides

Landmark Achievements

Power Generation

- Largest Power Generation Company in East Africa
- Pioneered Geothermal Wellhead Technology
- Largest Geothermal Producer in Africa and 9th in the World
- Drilled the largest Geothermal Well in Africa, 30MW

Sustainability

- First Kenyan Company to earn Carbon Asset Funds under the Clean Development Mechanism (CDM)
- Commissioned the first and the biggest Geothermal Spa in Africa
- Institutionalized innovation through the Company's Annual G2G Innovation Seminar
- Implemented a remarkable community Resettlement Action Plan (RAP) for 1,181 project affected persons in Olkaria
- Diversified Revenue Streams through geothermal consultancy works and commercial geothermal drilling contracts
- ISO QMS 9001:2015 and EMS 14001:2015 certified
- 7mn Carbon Tonnes Offset since 2003

Awards

The Company received Accolades during the year

1. **FKE Awards - Employer of the Year Awards (EYA):**
    - *Winner - Responsible Business Conduct*
    - *1st Runners Up - Leadership & Governance*
    - *2nd Runners Up - Employer of the Year*
2. **Fire Awards 2017**
    - *IFRS - Winner State Corporation Category*
3. **Africa Public Service Awards**
    - *Runners Up - Rethinking Innovation in Manufacturing 2018*
4. **St John Ambulance Kenya First Aid Challenge**
    - *Best in Corporate First Aid*

Corporate Information

Board of Directors	Joshua K. Choge	*Chairman*
	Rebecca Miano	*Managing Director & CEO* *(Appointed Acting MD & CEO on 26 August 2017)* *(Appointed MD & CEO on 30 October 2017)*
	Albert Mugo	*Retired on 26 August 2017*
	Henry Rotich	*Cabinet Secretary, The National Treasury*
	Joseph Njoroge	*Principal Secretary, Ministry of Energy*
	Ziporah Ndegwa	
	Musa Arusei	
	Kairu Bachia	
	Joseph Sitati	
	Maurice Nduranu	
	Phyllis Wakiaga	
	Dorcas Kombo	*Retired on 22 November 2017*
	Reginalda Wanyonyi	*Appointed on 22 November 2017*
	Humphrey Muhu	*Alternate to Henry Rotich*
	William Mbaka	*Alternate to Joseph Njoroge*
Secretary	Paul K. Ndungi	*Appointed on 25 July 2018* *Certified Public Secretary (Kenya)* *KenGen Pension Plaza 2* *Kolobot Road* *P. O. Box 47936 - 00100 GPO* *Nairobi*
	David K. Mwangi	*Appointed Acting Secretary on 30 October 2017* *Acting Secretary up to 25 July 2018*
Registered Office	Head Office KenGen Pension Plaza 2 Kolobot Road, Parklands P. O. Box 47936, 00100 GPO Nairobi, Kenya	
Registrars	Image Registrars Limited Barclays Plaza, 5th Floor Loita Street P. O. Box 9287 - 00100 GPO Nairobi	

Principal Auditor

The Auditor General
Anniversary Towers
P. O. Box 30084 - 00100 GPO
Nairobi

Delegated Auditor

PricewaterhouseCoopers
Certified Public Accountants (Kenya)
PwC Tower, Waiyaki Way/Chiromo
Road, Westlands
P. O. Box 43963 - 00100 GPO
Nairobi

Principal Bankers

Commercial Bank of Africa Limited
Wabera Street
P. O. Box 30437- 00100 GPO
Nairobi

Co-operative Bank of Kenya
Stima Plaza
P. O. Box 38764-00600
Nairobi

Citibank NA
Upper Hill
P. O. Box 30711 - 00100 GPO
Nairobi

Stanbic Bank Limited Kenya
Kenyatta Avenue Branch
P. O Box 30552-00100 GPO,
Nairobi

Equity Bank Limited
Westlands Supreme Centre,
P. O. Box 14253 – 00800
Nairobi

KCB Kenya
Moi Avenue Branch
P. O. Box 24030 - 00100 GPO
Nairobi

NIC Bank Limited
NIC house
Masaba Road, Upperhill
P. O. Box 44500 - 00100 GPO
Nairobi

Standard Chartered Bank Kenya Limited
Harambee Avenue
P. O. Box 30003 - 00100 GPO
Nairobi

Barclays Bank of Kenya Limited
Barclays Westend Building
Off Waiyaki Way
Corporate Banking Center
P. O. Box 30120 - 00100
Nairobi

Bank of Africa Limited
Sameer Business Park
Unit C 1st Floor
P. O. Box 69562 - 00400
Nairobi

Corporate Information

Management Team:	Rebecca Miano	*Managing Director & CEO* *(Appointed Acting MD & CEO on 26 August 2017)* *(Appointed MD & CEO on 30 October 2017)*
	Albert Mugo	*Retired on 26 August 2017*
	Divisional Directors:	
	Solomon Kariuki	*Operations Director*
	Paul K. Ndungi (CPSK)	*Company Secretary & Legal Affairs Director* *(Appointed on 25 July 2018)*
	David K. Mwangi	*Appointed Acting Company Secretary & Legal Affairs Director on 30 October 2017* *Acting Company Secretary & Legal Affairs Director up to 25 July 2018*
	Abraham Serem	*Human Resource & Administration Director*
	John Mudany (FCPA)	*Finance & ICT Director*
	Simon Ngure	*Corporate & Regulatory Services Director*
	Moses Wekesa	*Business Development Director*
	Abel Rotich	*Geothermal Development Director*
	David Muthike	*Strategy & Innovation Director*
	Philip Yego	*Supply Chain Director*

Board Committees:

Audit, Risk & Compliance Committee	Joseph Sitati - Chair Humphrey Muhu Kairu Bachia Ziporah Ndegwa Phyllis Wakiaga
Human Resource & Nominations Committee	Musa Arusei -Chair Rebecca Miano Kairu Bachia Phyllis Wakiaga Reginalda Wanyonyi

Strategy Committee	Kairu Bachia- Chair Rebecca Miano Joseph Sitati William Mbaka Humphrey Muhu
Procurement Oversight Committee	Ziporah Ndegwa - Chair Rebecca Miano Musa Arusei Maurice Nduranu Reginalda Wanyonyi
Finance Committee	Maurice Nduranu - Chair Rebecca Miano Musa Arusei William Mbaka Humphrey Muhu

Report of the Directors

Statement of Directors

The Directors submit their report together with the audited financial statements for the year ended 30 June 2018, which disclose the state of affairs of Kenya Electricity Generating Company Plc (the "Company").

Principal Activities

The principal activity of the Company is to generate and sell electricity to the authorised distributor, Kenya Power and Lighting Company (Kenya Power).

Business Review

During the first half of the year under review, the Country experienced a persistent drought which affected water levels in our reservoirs, leading to reduced dispatch from our hydro generation. There was 6% growth in Electricity Units sold due to step up of generation from Geothermal and Thermal to mitigate the hydrology risk.

Electricity Unit Sales

	2018	2017	Change
Source	**GWh**	**GWh**	**%**
Hydro	3,187	3,339	-5%
Geothermal	3,867	3,282	18%
Thermal	888	872	2%
Wind	47	63	-25%
Total	**7,989**	**7,556**	**6%**

Revenue

Revenue improved from Kshs 43,432 million in the previous year to Kshs 45,290 million during the year under review. This is attributable to improved evacuation of geothermal and thermal power to mitigate low hydrology, leading to increase in revenue net of reimbursable expenses from Kshs 34,452 million to Kshs 35,884 million. This is despite an increase in related reimbursable expenses from Kshs 8,979 million to Kshs 9,406 million.

Other income

Other income declined compared to the previous year due to lower insurance compensation and non-receipt of Carbon Credit Funds.

Other gains/(losses) relates to foreign exchange valuations and fair value measurement of financial assets. The decrease during the period is attributable to fair value loss on a financial asset through profit or loss.

Expenses

Towards the end of the last financial year, the Company capitalized Wellheads, steam Wells and other projects amounting to Kshs 35,547 million. This resulted in increased full year depreciation and amortisation expenses in the current year by 10% from Kshs 9,244 million to Kshs 10,148 million.

Expenses (continued)

Employee costs increased by 7% from Kshs 5,755 million to Kshs 6,132 million. This was due to implementation of a new Collective Bargaining agreement (CBA), performance recognition, and cost of living adjustment.

Steam costs increased due to higher dispatch from geothermal plants to mitigate low hydrology.

The Company continued to institute measures to optimise operating expenses. The plant operation and maintenance expenses increased because of costs associated with operation of the thermal plants that increased their dispatch to mitigate low hydrology. Insurance expenses increased because of cover for completed Well heads, which become fully operation during the last financial year. Other expenses declined because the amount recorded in the previous year included a provision for doubtful debts of Kshs 429 million.

Finance Income/Expense

Interest income increased from Kshs1,333 million in June 2017 to Kshs 3,341 million in June 2018 due to interest charged for outstanding electricity sales invoices and fair value gain from a financial asset through profit or loss. Interest expenses recorded a decline from Kshs 3,417 million to Kshs 3,038 million due to declining Public Infrastructure Bond (PIBO) interest and strengthening of the shilling against major currencies (mainly the USD, which recorded a gain of 3% during the year).

Profitability

There was no major project planned for completion during the period. Therefore, tax expense increased from Kshs 2,455 million to Kshs 3,855 million due to lack of capital investment allowance enjoyed in the previous financial year. Consequently, Profit after tax declined from Kshs 9,006 million to Kshs 7,891 million.

Financial Position

Total assets increased from Kshs 376,730 million to Kshs 379,353 million. This was mainly attributable to investments in implementation of Olkaria V, rehabilitation of Kamburu power plant and drilling of additional wells to secure steam for the upcoming power plants.

Cash Flows

The cash and bank balances decreased from Kshs 7,831 million to Kshs 3,383 million. This was due to investments of funds in the ongoing implementation of Olkaria V, drilling of additional wells to secure steam for the upcoming power plants and Kamburu power plant rehabilitation.

Dividends

Subject to the approval of the shareholders, the Directors propose payment of a first and final dividend of Kshs 2,638 million (2017: Nil) for the year representing Kshs 0.40 (2017: Nil) per issued ordinary share.

Directors

The Directors who held office during the year and to the date of this report are disclosed on page 8;

Report of the Directors

Disclosures to the Auditor

The Directors confirm that with respect to each Director at the time of approval of this report:

(a) There was, as far as each Director is aware, no relevant audit information of which the Company's auditor is unaware and

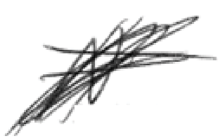
(b) Each Director had taken all steps that ought to have been taken as a Director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Terms of appointment of Auditors

The Auditor General is responsible for the statutory audit of the Company's financial statements in accordance with Section 35 of the Public Audit Act, 2015. Section 23(1) of the Act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf. Accordingly, PricewaterhouseCoopers were appointed to carry out the audit for the year ended 30 June 2018. PricewaterhouseCoopers continue in office in accordance with the Company's Articles of Association and section 721 of the Kenyan Companies Act, 2015.

The Directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

By Order of the Board



Secretary

25 October, 2018


Masinga water overflow

Chairman's Statement

Joshua Choge, MBS
Chairman of the Board

Dear Shareholder,

The success of your Company has been consistent over the last ten years. Our performance has weathered global economic downturns, two electioneering cycles and a financial squeeze. Kenya's economic growth slowed to 4.9% while the global economic growth accelerated at 3.6% compared to 3.1% in 2016. Global inflation rose to 3.1% in 2017 from 2.8% in 2016, partly attributable to increases in oil prices. In Kenya, key macroeconomic indicators largely remained stable and therefore supportive of the modest growth in 2017. Total electricity generation expanded by 3.0% to 10,356GWh in 2017. However, your Company's contribution to national electricity generation grew by 6% to 7,989GWh.

We have adopted the most prudent means to run the Company to ensure we maximise our profits and safeguard long-term shareholder interests. Your continued trust in the Board and Management of the Company has ensured that we produced good results while meeting the national objective of providing competitively priced electricity for Kenyans.

The Year Ahead

In December 2017, H.E. The President Uhuru Kenyatta unveiled the Big Four Agenda, focusing on creating 1.3 million manufacturing jobs by 2022, achieving 100 per cent health coverage for every Kenyan, expanding food production and building 500,000 affordable houses.

For Kenya to realise the aspirations of the Big Four Agenda and the Vision 2030 development blueprint, it requires affordable and reliable energy. This presents new opportunities for KenGen to scale up its business and meet energy requirements to grow the manufacturing sector, reduce the cost of production and make Kenya an attractive investment destination for multi-national companies.

Globally, there has been a gradual shift towards the use of clean, renewable sources of energy as a measure of reducing the adverse effects of greenhouse gases on the environment.

Currently, Kenya has a national installed capacity of 2,370MW with renewable energy accounting for more than 70% of this total.

KenGen has been at the forefront of driving the Country's green energy agenda and has scaled up renewable sources of energy. Currently, 80% of KenGen's energy portfolio is green, mainly geothermal and hydro. This is expected to increase with the commissioning of the 165.4MW Olkaria V power plant which is currently under development.

At the same time, we expect an exciting year ahead as key decisions will be made on the Company's business, especially on the issue of diversification, to enable KenGen venture into non-power generation businesses in order to build resilience and sustainability. We will also continue to focus on innovation as a means to creating more value for you, our shareholder.

The Company will continue to monitor and actively participate in shaping the regulatory environment with a view to creating a conducive environment for its business to thrive. KenGen has been actively involved in the development of the Energy Bill, which is currently awaiting Presidential assent, and is working on a preparedness strategy as it awaits direction on the Bill.

Stakeholder Relations

Your Company is a responsible corporate social citizen and is alive to the fact that we operate in areas surrounded by communities. As we harness energy resources in far flung areas of our country, we simultaneously seek to improve the living standards of host communities.

To achieve its strategic aspirations, KenGen will continue to focus on its expansion plan by building strategic partnerships that create a win/win situation. We believe such partnerships will enable effective management of mutual concerns. We have established stakeholder coordination committees, bringing together KenGen, community representatives, elected leaders as well as national and county governments in order to enhance dialogue and promote a collaborative approach to resolving issues.

Chairman's Statement

During the year under review, the Company set a firm foundation for building strong relationships with communities and other stakeholders by benchmarking ourselves against the best in the world and developing vibrant strategies for creating and maintaining strong, mutually beneficial relationships.

Financial Results

Financial sustainability is a key focus for our business in ensuring we provide sufficient electricity and make investments to meet growing demand while remaining a profitable business. For the year under review, our revenue registered a 4% increase from Kshs 43,342 million in 2017 to Kshs 45,290 million in 2018. This was largely due to enhanced geothermal energy sales that significantly offset depressed hydro generation, especially in the first half of the year when the country experienced persistent drought. Profit before tax increased from Kshs 11,461 million in 2017 to Kshs 11,746 million reported for the year.

Dividends

The Company's continued profitability this year, has enabled the Board to keep its promise to shareholders to resume the pay-out of dividends. The Board recommends a dividend of Kshs 0.40 per share which amounts to Kshs 2,638 million.

If approved at this Annual General Meeting by shareholders, the dividend will be paid, less withholding tax where applicable, on or about Thursday, 7th February 2019.

Corporate Governance

We are operating in a business environment dominated by major governance issues which are affecting all facets of the Kenyan public and private sector. I assure you that at KenGen, we have not taken for granted our responsibility in securing the future of the Company for coming generations and investors. The Board is strongly committed to practising the highest standards in corporate governance and practising ethical leadership. I believe the governance structures we have in place are sufficient to enable the Company continue to flourish in these tumultuous times.

It was a period of transition for KenGen as the Managing Director & CEO, Eng. Albert Mugo, who had served the Company in this capacity since 2014, retired. We would like to thank Eng. Mugo for passing on a strong legacy that has seen the Company remain firmly on its growth path.

It was the responsibility of the KenGen Board to appoint a strong successor and Mrs. Rebecca Miano, the long-serving Company Secretary and Legal Affairs Director, met the criteria. I would therefore like to congratulate her on her appointment as the first ever female Managing Director & CEO since the Company was established in 1954. I thank the Board and employees for their commitment and dedication in ensuring a seamless transition, which has enabled the Company to continue achieving impressive performance.

Appreciation

First and foremost, I would like to thank our shareholders for forgoing dividends for two consecutive years to enable us pursue our expansion program. Indeed, this is a high level of sacrifice and commitment to the success of the Company.

At the same time, I would like to thank my fellow Board Members for their unwavering support and for applying their highest professional standards in carrying out the business of the Board and in decision making.

I would also like to thank the Government of Kenya not only for its continued support of KenGen's development agenda but also for enabling us to access concessionary loans for power infrastructure development. I recognize our development partners and financiers who continue to strengthen our partnerships through financial support, which has ensured we have remained on course to deliver our project pipeline and promise to Kenyans.

Thank you

Mpendwa Mwenyehisa,

Mafanikio ya Kampuni hii yako yamezidi kuwa thabiti zaidi katika miaka kumi iliyopita. Utendaji wetu umestahimili kudorora kwa uchumi duniani, mizunguko miwili ya uchaguzi na hali ngumu ya kifedha. Ukuaji wa uchumi wa Kenya ulipungua na kushuka hadi asilimia 4.9 ilihali ukuaji wa uchumi wa kimataifa ukiongezea kasi kwa asilimia 3.6 ikilinganishwa na asilimia 3.1 katika 2016. Mfumuko wa bei ulimwenguni uliongezeka hadi asilimia 3.1 katika 2017 kutoka asilimia 2.8 ya 2016, kwa kiasi kikubwa ikihusishwa na ongezeko la bei ya mafuta. Hapa Kenya, viashiria vya uchumi muhimu vilibakia imara na hivyo kuunga mkono ukuaji kadirifu wa mwaka 2017. Jumla ya uzalishaji wa umeme uliongezeka kwa asilimia 3.0 hadi Masaa ya Gigawati 10,356 katika 2017. Hata hivyo, mchango wa Kampuni yako katika uzalishaji umeme kwa taifa ilikuwa kwa asilimia 6 hadi Masaa ya Gigawati 7,989.

Tumeamua kufuata njia ya busara zaidi ya usimamizi wa Shirika ili kuhakikisha tunazalisha faida ya kutosha na kulinda maslahi ya muda mrefu ya mmilikihisa wetu. Uaminifu wako unaoendelea kwa Bodi na Usimamizi wa Kampuni hii umehakikisha kuwa tumezalisha matokeo mazuri wakati tunapojitahidi kukidhi lengo la kitaifa la kutoa umeme kwa bei nafuu kwa Wakenya.

Mwaka ujao

Mnamo Desemba 2017, Mtukufu Rais Uhuru Kenyatta alizindua Ajenda Nne Kuu, akitilia mkazo kubuniwa kwa nafasi za kazi milioni 1.3 za viwanda ifikapo 2022, kufanikisha kuenea kwa asilimia 100 kwa matibabu kwa kila Mkenya, kupanua uwezo wa uzalishaji chakula na ujenzi wa nyumba 500,000 za gharama nafuu.

Ili Kenya kuweza kufikia matarajio ya Ajenda Nne Kuu na ruwaza ya Maendeleo ya 2030, inahitaji nishati ya gharama nafuu na ya kutegemewa. Hii inatoa fursa mpya kwa KenGen kuimarisha biashara yake na kutimiza mahitaji ya nishati ya kukuza sekta ya viwanda, kupunguza gharama za uzalishaji na kufanya Kenya eneo hitajika la uwekezaji la kuvutia makampuni mbalimbali ya kimataifa.

Ulimwenguni, hatua kwa hatua kumekuwa na mabadiliko kuelekea matumizi ya vyanzo vya nishati safi, vinavyoweza kutumika kama kipimo cha kupunguza athari mbaya za gesi za kuchafua mazingira. Kwa sasa, Kenya ina uwezo wa kitaifa uliowekwa wa Megawati 2,370 huku nishati mbadala ikichangia zaidi ya asilimia 70 ya jumla hii.

KenGen imekuwa mstari wa mbele katika kuendeleza ajenda ya nishati ya Nchi na imeongeza vyanzo vya nishati mbadala. Hivi sasa, asilimia 80 ya itifaki ya nishati ya KenGen ni safi isiochafua mazingira, hasa ya umeme utokanao na mvuke na maji. Hii inatarajiwa kuongezeka baada ya kuanzishwa kwa mradi wa kiwanda cha Olkaria V Megawati 165.4 ambacho sasa kinaendelea kustawishwa.

Wakati huo huo, tunatarajia mwaka ujao uwe wa kusisimua wakati maamuzi muhimu yatafanyika kuhusu biashara ya kampuni,hii hususan juu ya suala la utofautishaji, ili kuwezesha KenGen kujiingiza katika biashara zisizo za uzalishaji umeme, ili kustawisha ujasiri na uendelevu. Tutaendelea pia kupatia kipaumbele ubunifu kama njia ya kuongeza thamani zaidi kwako, mwanahisa wetu.

Kampuni itazidi kufuatilia na kushiriki kikamilifu katika uundaji mazingira ya udhibiti kanuni kukiwa na mtazamo wa kubuni mazingira mazuri kwa biashara yake ili ipate kustawi. KenGen imekuwa ikishiriki kikamilifu katika ustawishaji wa Sheria ya Nishati, ambayo kwa sasa inasubiri kuidhinishwa na Rais, na inashughulikia mkakati wa kujiandaa wakati tunapongojea mwelekeo kuhusu Sheria hii.

Mahusiano na Wadau

Kampuni yako ni raia mwema katika jamii na inatambua kuwa tunafanya kazi katika maeneo yaliyozungukwa na jumuiya. Tunapounganisha rasilimali za nishati katika maeneo mbali mbali ya nchi yetu, wakati huo huo sisi tunajitahidi kuboresha viwango vya maisha ya jumuiya wenyeji wetu.

Ili kufikia matarajio yake ya kimkakati, KenGen itaendelea kuzingatia mpango wake wa upanuzi kwa kujenga ushirikiano wa kimkakati ambao unaleta kuwepo kwa hali ya ushindi kwa wote. Tunaamini ushirikiano huo utawezesha usimamizi bora wa matarajio ya pamoja. Tumeanzisha kamati za ushirikiano wa wadau, unaojumuisha KenGen, wawakilishi wa jamii, viongozi waliochaguliwa na serikali ya kitaifa na za kaunti ili kuendeleza mazungumzo na kukuza mbinu shirikishi za kutatua masuala.

Ujumbe kutoka kwa Mwenyekiti

Katika mwaka tunaoukariria, kampuni hii iliweka misingi imara wa kujenga mahusiano mazuri na jumuiya na wadau wengine kwa kujiwekea vigezo bora sambamba dhidi ya vilivyo bora zaidi duniani na kuendeleza mikakati imara ya kujenga na kudumisha mahusiano thabiti, yenye manufaa.kwa wahisika wote.

Matokeo ya Kifedha

Uimarishaji wa hali ya kifedha ni lengo kuu la biashara yetu katika kuhakikisha tunatoa umeme wa kutosha na kufanya uwekezaji wa kukidhi mahitaji ya ukuaji huku tukiendelea kuwa biashara inayozalisha faida. Katika mwaka tunaoutazama, faida yetu iliongezea kwa kima cha asilimia 4 kutoka shilingi milioni 43,342 katika 2017 hadi shilingi milioni 45,290 katika 2018. Hii ilitokana hasa zaidi na mauzo ya nishati ya kioevu ambayo ilisaidia kukabili uzalishaji uliodorora wa kutumia maji hasa katika nusu ya kwanza ya mwaka ambapo nchi hii ilikabiliwa na ukame wa kudumu. Faida kabla ya kodi iliongezeka kutoka shilingi milioni 11,461 katika 2017 hadi shilingi milioni 11,746 iliyoripotiwa mwakani.

Mgao

Kuendelea kwa Kampuni kuzalisha faida mwaka huu, kumewezesha Bodi kuweka ahadi yake kwa wanahisa kutoa malipo ya mgao. Bodi inapendekeza mgao wa shilingi 0.40 kwa kila hisa ambayo ni sawa na shilingi milioni 2,638. Iwapo itaidhinishwa katika Mkutano Mkuu wa Mwaka huu na wamilikihisa, mgao huo utalipwa, ikiondolewa kodi pale inapohitajika, mnamo Alhamisi, tarehe 7 Februari 2019.

Usimamizi wa Shirika

Tunafanya kazi katika mazingira ya biashara yanayoongozwa na masuala makubwa ya utawala ambayo yanaathiri nyanja zote za sekta ya umma na binafsi ya Kenya. Ninawahakikishia kuwa katika KenGen, hatujachukuliwa kwa wepesi nafasi yetu ya kupata hatima ya Kampuni kwa vizazi vijavyo na wawekezaji wetu. Bodi ina msimamo mara kabisa wa kutekeleza viwango vya juu katika usimamizi wa shirika na kutekeleza uongozi kwa maadili. Ninaamini vigezo vya usimamizi tulivyonavyo vinatosha kuwezesha Kampuni hii kuendelea kustawi katika nyakati hizi za kutatanisha. .

Ulikuwa muda wa mpito kwa KenGen kwa vile Mkurugenzi Mkuu na Afisa mkuu mtendaji, Albert Mugo, aliyehudumia kampuni tangu mwaka wa 2014, alistaafu. Tungependa kumshukuru Mhandisi. Mugo kwa kupokeza urithi thabiti ambao umesababisha kampuni kuwa imara katika ufuatiliji wa ukuaji wake.

Ilikuwa ni wajibu wa Bodi ya KenGen kumteua mrithi mwenye nguvu na Bibi Rebecca Miano, Katibu wa Kampuni na Mkurugenzi wa Mambo ya Kisheria kwa muda mrefu, alifaulu kufikia vigezo vilivyowekwa. Kwa hiyo ningependa kumshukuru kwa kuteuliwa kwake kwa mara ya kwanza kabisa kama Mkurugenzi Mtendaji mwanamke na Mkurugenzi Mkuu tangu kuanzishwa kampuni hii katika mwaka 1954. Ninashukuru Bodi na wafanyakazi wote kwa kujitolea kwao na kujituma ili kuhakikisha mabadiliko yanaenda sawa, ambayo yamefanya kampuni kuendelea kufikia utendaji mzuri.

Shukrani

Kwanza kabisa, ningependa kuwashukuru wanahisa wetu kwa kuhiari kuacha mgao wao kwa miaka miwili mfululizo ili kutuwezesha kutekeleza programu zetu za upanuzi. Hakika, hiki ni kiwango cha juu cha wema wao na kujitolea kwa mafanikio ya kampuni hii. Wakati huo huo, ningependa kuwashukuru Wanabodi wenzangu kwa msaada wao usitikisika na kwa kutumia viwango vyao vya juu vya kitaaluma katika kutekeleza shughuli za Bodi na kufanya maamuzi.

Napenda pia kutoa shukrani kwa Serikali ya Kenya si tu kwa msaada wake endelevu wa ajenda ya maendeleo ya KenGen lakini pia kwa kutuwezesha kupata mikopo kwa ajili ya maendeleo ya miundombinu ya nguvu za umeme. Ningependa kuwatambua washirika wetu wa maendeleo na wafadhili ambao wanaendelea kuimarisha ushirikiano wetu kwa kupitia msaada wa kifedha, ambao umehakikisha kuwa tumebakia wakati wa kutoa mpango wa mradi wetu na ahadi kwa Wakenya.

Joshua Choge, MBS
Mwenyekiti wa Bodi

Managing Director & CEO's Statement

KenGen is committed to implementing the planned projects pipeline in order to meet future electricity demand for the nation, while enhancing value for our shareholders.

Dear Shareholder,

I am delighted to report that this year, we have made excellent progress in achieving our key strategic priorities in capacity development, operational excellence, regulatory management and organizational health. This was made possible because of dedicated employees as well as strengthened relationships with energy sector peers, investors, policymakers and leaders at the community, county and national levels.

While each of our stakeholders has a different set of issues they care about, they all want to know what we are doing to address the cost and reliability of the power we generate. They want to know the Company's sustainability strategy: they ask questions that quickly get to the heart of their concerns and interests.

As the largest power generation utility in East Africa, we have a unique responsibility to leverage our strengths and expertise to develop sustainable solutions that address the complex issues raised by our stakeholders.

The convergence of stakeholder demands requires that we remain committed to generating affordable power that enables achievement of the Big Four agenda, delivering financial results that guarantee a healthy return on investment to our shareholders and developing a robust community engagement strategy.

The Company's 2018 corporate theme, "Build", reflects our commitment to sustainability. We are investing in building our capacity to create value for our shareholders, deepening relationships and seizing new opportunities that address stakeholder concerns.

Building Affordable Capacity

Our Generation-to-Generation Transformation Strategy is centered on affordability and value creation. Our medium term goal is to add 721MW by year 2025 from Geothermal, Solar, Wind and Hydro, which are green sources abundantly available in our Country. These developments tie in with the Least Cost Development Plan addressing the affordability goal.

The root of affordability starts from the source of energy. We are committed to ensuring the power we generate is affordable. Indeed, during the year, we greatly progressed the construction of a 165.4MW geothermal power plant at Olkaria V which is expected to feed the grid in July 2019. Commitments for the addition of 124.34MW of innovative geothermal wellhead power to the grid are also on track.

In progression of our geothermal development agenda, we obtained the Eburru Geothermal Concession License and we intend to undertake further exploration and appraisal drilling in the field.

As KenGen we endeavor to tap into the capability of our engineers, scientists and other professionals to develop home-grown solutions. To this end, we are setting up an in-house Innovation Research & Development Lab and Calibration Center to provide a platform for developing and testing technological solutions.

Building on our strength as the leading African Geothermal Consultant, our long-term growth strategy entails developing strong regional partnerships. During the year, GoK signed a Memorandum of Understanding with the Government of Djibouti within which framework KenGen would employ its expertise to develop geothermal fields. Through our Geothermal Center of Excellence at Olkaria, we have also trained African participants in geothermal technology. Our role in capacity building was recognized internationally and, through the World Bank, we have been able to obtain a commitment for funding to strengthen our Geothermal Centre of Excellence. Our expertise has also attracted interest from geothermal licensees who intend to collaborate with KenGen in their geothermal concession areas, thereby enhancing our revenue streams.

Building Financial Strength

We are committed to maintaining investor confidence in our long-cycle, capital intensive business. We remained cash generative at the operating level despite continued investment over the last year in capacity expansion, which was mainly focused on geothermal. It is this investment that will underpin further rapid growth going forward, with an overall objective of a steady return for our shareholders.

During the year, our generation dispatch increased by 6% from 7,556GWh in 2017 to 7,989GWh for the year ended 30 June 2018. This increase was recorded despite a persistent drought which affected water levels within our reservoirs in the first half of the financial year. Diversification of our energy sources paid off as geothermal generation catered for the hydro generation deficit.

Overall, we delivered good results under a very challenging environment. These results provide vital information about our financial health, future projections and outlook. They also give us an opportunity to reflect and chart our way forward in terms of our overall strategic direction, aimed at increasing shareholder value by growing our business.

We made a 2% increase in pre-tax profit for the year ended 30 June 2018, which translates to Kshs 11,746 million. In 2017, we made a profit of Kshs 11,461 million.

Managing Director & CEO's Statement

The improved performance was a result of net finance income. Our Company's total revenue increased by 4%, up from Kshs 43,432 million in 2017 to Kshs 45,290 million. This was driven by a 20% growth in steam revenue, which increased from Kshs 5,189 million in 2017 to Kshs 6,222 million in 2018.

At the same time, the revenue we generated from geothermal power plants increased from Kshs16,102 million in 2017 to Kshs17,112 million in 2018, a growth of 6%. This reinforces our strategic plan which focuses on the production of geothermal energy.

During the period under review, we had no plants planned for commissioning and therefore did not benefit from tax credits which are normally given when a new plant is commissioned. Therefore, the profit after tax is Kshs 7,891 million compared to Kshs 9,006 million last year.

Building Operational Excellence

Safety is one of our core values ingrained in how we operate the Company. In 2017, we lowered the total reportable injuries by over 30% by investing in staff safety programs. Our goal is for everyone to return home safely each day.

Our geothermal power plants achieved a combined capacity factor of 94% in 2018. During the critical months of November 2017 through April 2018, when low-cost power was needed most to mitigate low hydrology, the fleet capacity factor was 98%. Six (6) of the geothermal power stations continuously operated without shutdown during the year, a record achievement.

In May 2018, we had favourable weather conditions characterized by high rainfall which led to increased water inflows into our hydro dams, with Masinga peaking at 1,057.75m, the highest in 20 years. This greatly enhanced our hydro generation availability and downscaled the thermal energy requirement.

Our thermal plants performed well, achieving a forced outage rate of only 5% in 2018. Due to favorable hydrology and good dispatch from our geothermal plants, our dispatch from these plants was depressed at only 40% load factor in 2018. We are aligned to the Government's agenda to reduce the cost of power.

During the year we reviewed our fleet reliability maintenance strategy to enhance effectiveness and efficiency.

Our Future Outlook

KenGen is committed to implementing the planned projects pipeline in order to meet future electricity demand for the nation while enhancing value for our shareholders.

In line with our current revamped Horizon II strategy, we plan to increase our generation capacity on a continuous basis. In the coming year, we are committed to delivering the 165.4 MW Olkaria V geothermal project. The first unit of 82.7 MW is scheduled for commissioning in April 2019 and the second unit in July 2019. We also expect to start implementation for Olkaria I Unit 6 (83 MW) in this coming financial year, with a planned commissioning in January 2021. Other projects in the pipeline, for a total of 472 MW, are at various stages of preparation and cut across the renewable sources of geothermal, wind, solar and hydro. These are projects planned for implementation in the medium-term period spanning 2019 to 2022.

As a Company, we are truly living in exciting times, where we have become the reference point for operational excellence in the industry. The Rural Electricity Authority has approached KenGen to run the 50MW Solar Plant in Garissa and negotiations are ongoing to establish the terms of the Operations and Maintenance Contract.

We are proud of this development as it means we are not only making the right decisions and choices for the Company, but are totally on-track and in-sync with our vision of being the leaders in power generation in the Eastern Africa Region.

To be able to further build and cement our reputation and bring out our best, our staff have already undergone training in readiness for this new exciting and challenging opportunity.

The Company continues to explore partnerships with geothermal concessional license holders of new fields so as to assist the harnessing of this magical green resource in pursuit of our capacity expansion agenda and for greater national good.

This also serves to mitigate climate change while furthering our care for the environment and promoting our position as a good corporate citizen.

We initiated review of our organization structure to ensure continued agility and remain responsive to the changing business circumstances. We expect the process to result in enhanced focus on community engagement issues to promote mutually beneficial co-existence with the communities living around our power installations. The review will also be expected to bring to the fore how operational efficiency across the business can be improved.

As the MD & CEO of this great Company, I am firmly cognizant of the fact that good leadership is the bedrock of our success. I am therefore determined and keen to invest in leadership development at all levels across the business in order to build leaders empowered and motivated to continue our great journey to greater heights of achievement.

We cannot afford to rest on our laurels and we shall therefore pursue current programs while continually reviewing and bringing on board new targeted initiatives to sustain the leadership funnel, smooth out succession at KenGen and ensure lasting value-creation for our shareholders.

Gratitude

I sincerely thank the Board of Directors and the entire KenGen family for their dedication and zeal to drive the Company's agenda.

I am proud of what we do and grateful for your commitment.

Rebecca Miano (MRS.) OGW
Managing Director & CEO

Ujumbe kutoka kwa Mkurugenzi Mkuu na Afisa Mtendaji

KenGen ina nia ya kutekeleza bomba la miradi iliyopangwa ili kufikia mahitaji ya umeme ya baadaye kwa taifa, huku ikiboresha thamani kwa wanahisa wetu.

Mpendwa Mwenyehisa,

Ninafuraha kuwaripotia kuwa mwaka huu, tumetimiza maendeleo mazuri katika kufikia vipaumbele muhimu vya kimkakati katika ustawishaji wa uwezo, ufanisi wa uendeshaji, udhibiti wa kanuni na uthibiti wa hali ya Usimamizi. Hii iliwezekana kwa sababu ya kujitolea kwa wafanyakazi pamoja na pia kuimarishwa kwa mahusiano na wadau wengine katika sekta ya nishati, wawekezaji, watoaji sera na viongozi katika jamii, kaunti na ngazi za kitaifa.

Wakati kila mmoja wa wadau wetu wakiwa na masuala mbalimbali wanayoyajali, wote wanataka kujua nini tunachofanya katika kushughulikia gharama na uaminifu wa nguvu za nishati tunayozalisha. Wangependa kufahamu mkakati endelevu wa Kampuni: wanauliza maswali ambayo yanafikia upesi kiini cha shauku na maslahi yao.

Sisi kama shirika kubwa la uzalishaji umeme katika Afrika Mashariki, tuna jukumu la kipekee la kuimarisha uwezo na utaalamu wetu wa kuendeleza ufumbuzi endelevu unaoweza kushughulikia matarajio magumu yaliyotolewa na wadau wetu.

Kupokewa kwa mahitaji kutoka kwa wadau kunatufanya tudumishe nia ya kuzalisha nguvu za umeme za bei nafuu za kufanikisha jitihada za kufikia Ajenda Nne Kuu, kuwasilisha matokeo ya kifedha ambayo yanahakikisha upataji faida imara kutokana na uwekezaji wetu na kuendeleza mkakati wa ushiriki wetu katika jamii.

Mandhari ya Kampuni ya 2018, "Kujenga", yanaonyesha ahadi yetu ya uendelevu. Tunawekeza katika ujenzi uwezo wetu wa kubuni thamani kwa wanahisa wetu, kuimarisha mahusiano na kuwania fursa mpya za kushughulikia matatizo ya wadau.

Kujenga Uwezo wa Bei Nafuu

Mkakati wetu wa mageuzi wa Uzalishaji hadi Uzalishaji umeasisiwa juu ya uwezo na uundaji wa thamani. Lengo yetu katika kipindi cha muda mrefu ni kuongeza megawati 721 kufikia mwaka wa 2025 ya kutokana na Kioevu, Nguvu za jua, Upepo na Maji, ambavyo ni vyanzo vya kimazingira safi vinavyopatikana kwa wingi katika Nchi yetu. Maendeleo haya yameunganishwa na Mpango wa Maendeleo ya Gharama Nafuu wa kushughulikia malengo ya uwezekano wa unafuu.

Kiini cha unafuu kinatokana na chanzo cha nishati. Sisi tunajitolea katika kuhakikisha nguvu tunayozalisha ni ya bei nafuu. Kwa hakika, mwakani, tuliendeleza sana ujenzi wa kiwanda cha utoaji umeme wa megawati 165.4 wa Olkaria V ambao unatarajiwa kufidia gridi katika mwezi Julai, 2019. Kujitolea katika kuongeza megawati124.34 za nguvu za umeme wa upepo kwa gridi ya taifa pia ziko sawa katika mpango wetu.

Katika kutekeleza ajenda yetu ya maendeleo ya nishati ya kioevu, tulipata Leseni ya Makubaliano ya Kioevu ya Eburru na tunatarajia kufanya uchunguzi zaidi na utathmini wa uchunguzi huo katika maeneo.

Sisi kama KenGen tunajitahidi kutumia uwezo na ujuzi wa wahandisi wetu, wanasayansi na wataalamu wengine kuendeleza ufumbuzi wa humu kwetu ndani. Ili kufikia hatima hii, tunaanzisha kituo cha Utafiti na Ufumbuzi na kituo cha Ukadriaji ili kutoa jukwaa la kuendeleza na kupima ufumbuzi wa teknolojia.

Kujenga juu ya uwezo wetu kama Mshauri mkuu wa Nishati ya Kioevu barani Afrika, mkakati wetu wa ukuaji wa muda mrefu unajumuisha kuendeleza ushirika wa kikanda. Katika mwaka tunaouzungumzia, Serikali ya Kenya ilisaini Mkataba wa Maelewano na Serikali ya Djibouti ambapo ndani ya mfumo wake KenGen itaweza kutumia utaalamu wake kustawisha maeneo ya uzalishaji kioevu. Kupitia Kituo chetu cha Ustawishaji Utendakazi bora wa kioevu kilichoko Olkaria, tumetoa mafunzo kwa washiriki kutoka nchi za Kiafrika katika nyanja ya teknolojia ya kioevu.

Jukumu letu katika kujenga uwezo lilitambuliwa kimataifa na, kupitia Benki ya Dunia, tumeweza kupata ahadi ya kupatiwa fedha za kuimarisha Kituo cha Utendakazi bora wa kioevu. Utaalamu wetu pia umeweza kuwavutia watoaji leseni za uzalishaji wa nishati ya kioevu ambao wanataka kushirikiana na KenGen katika maeneo yao ya ufumbuzi wa kioevu na hivyo basi kuimarisha nyenzo zetu za mapato.

Kujenga Uwezo wa Kifedha

Tunajitolea kudumisha ujasiri wa uwekezaji katika duara letu la muda mrefu, biashara ya mtaji mkubwa. Tulizidisha ari yetu ya kuzalisha fedha katika kiwango cha uendeshaji licha ya kuwepo uwekezaji ulioendelea zaidi mwaka jana katika upanuzi wa uwezo, ambao ulikuwa unazingatia nyanja ya kioevu. Ni uwekezaji huu ambao utaimarisha ukuaji wa kasi, na lengo la jumla la kuleta faida ya kutegemewa kwa wanahisa wetu.

Katika kipindi cha mwaka huu, uzalishaji na utoaji nishati uliongezeka kwa asilimia 6 kutoka Masaa ya Gigawati 7,556 mwaka 2017 hadi Masaa ya Gigawati 7,989 kwa mwaka uliomalizikia tarehe 30 Juni 2018. Ukuaji huu ulipatikana licha ya kuwepo kwa hali ya ukame unaoendelea ambao uliathiri viwango vya maji ndani ya mabwawa yetu katika nusu ya kwanza ya mwaka wa fedha . Utofautishaji wa vianzo vyetu vya nishati ulileta natija nzuri kwa vile uzalishaji kupitia kioevu palipokuwa na upungufu wa uzalishaji kupitia maji.

Ujumbe kutoka kwa Mkurugenzi Mkuu na Afisa Mtendaji

Kwa ujumla, tulifikia matokeo mazuri licha ya kuwepo mazingira magumu sana. Matokeo haya yanatoa taarifa muhimu kuhusu hali yetu ya kifedha, makadirio ya baadaye na mtazamo katika mstakabala wetu. Pia yanatupa fursa ya kutafakari na kupanga mwelekeo wa kusonga mbele kwa mujibu wa mtazamo wetu wa kimkakati, unaolenga kuongeza thamani bora ya wanahisa kwa kukuza biashara hii yetu.

Tulipata ongezeko la asilimia 2 la faida kabla ya kulipa kodi katika mwaka uliomalizikia Juni 30, 2018, ambao ikimaanisha kiasi cha shilingi milioni 11,746. Katika 2017, tulipata faida ya shilingi milioni 11,461. Utendaji huu ulioimarika ulisababishwa na mapato kamili ya kifedha. Mapato ya jumla ya kampuni yetu yaliongezeka kwa asilimia 4, kutoka shilingi milioni 43,432 mwaka wa 2017 hadi shilingi milioni 45,290. Hii ilichochewa na ukuaji wa asilimia 20 uingizaji mapato, ambayo yaliongezeka kutoka shilingi milioni 5,189 katika 2017 hadi shilingi milioni 6,222 katika 2018.

Wakati huo huo, mapato tuliyozalisha kutokana na uzalishaji nguvu za umeme wa uoevu yaliongezeka kutoka milioni 16,102 katika 2017 hadi milioni 17,112 mwaka wa 2018, ukiwa ni ukuaji wa asilimia 6. Hii inaimarisha mpango wetu wa kimkakati unaozingatia uzalishaji wa nishati inayotokana na kioevu.

Wakati wa kipindi hicho tunachoangazia, hatukua na mipango ya kuzindua viwanda vya uzalishaji nishati na hivyo basi hatukufaidika na sahali ya kodi ambayo hutolewa kwa kawaida wakati kiwanda kipya kinapozinduliwa. Kwa hiyo, faida baada ya kulipa kodi ni shilingi milioni 7,891 ikilinganishwa na shilingi milioni 9,006 za mwaka jana.

Kujenga Ufanisi wa Uendeshaji

Usalama ni moja ya maadili yetu ya msingi yaliyoingizwa katika jinsi tunavyoendesha shughuli za kampuni hii. Katika mwaka wa 2017, tulipunguza majeruhi yaliyoripotiwa kwa jumla ya zaidi ya asilimia 30 kwa kuwekeza katika mipango ya usalama wa wafanyakazi. Lengo letu ni kutarajia kila mtu arudi nyumbani akiwa salama kila siku.

Kiwanda chetu cha uzalishaji nguvu ya kioevu ilifikia uwezo wa pamoja wa asilimia 94 mwaka wa 2018. Katika miezi muhimu ya Novemba 2017 hadi Aprili 2018, wakati nguvu za umeme za gharama nafuu zilihitajika zaidi ili kukabili upungufu wa haidrolojia, sababu ya uwezo wa ujazo uliolikuwa wa kima cha asilimia 98. Sita (6) miongoni mwa vituo vya umeme wa kioevu viliendelea kuendeshwa bila ya kusita katika kipindi cha mwaka huo, ikiwa ni mafanikio ya kutambulika.

Mnamo Mei 2018, tulikuwa na mazingira mazuri ya hali ya hewa ambayo yaliyosababishwa na mvua kubwa ambayo ilifanya kuongezeka kwa maji katika mabwawa yetu ya maji, na bwawa la Masinga likipanda hadi mita 1,057.75, ikiwa ni juu zaidi katika kipindi cha miaka 20. Hii iliimarisha mno uwezo wetu wa kuzalisha na kupungua kwa mahitaji ya nishati ya joto.

Viwanda vyetu vya utoaji nishati ya joto vilitekeleza kazi nzuri, kukiwa na upungufu wa nguvu wa asilimia 5 pekee katika 2018. Kwa sababu ya hidrolojia nzuri na uhamisho mzuri kutoka viwanda vyetu vya kioevu, uhawilisho wetu kutoka kwa viwanda hivi kulihafifika kwa sababu uwezo wa asilimia 40 tu mwaka wa 2018. Tuko sawa katika kutekeleza ajenda ya Serikali ili kupunguza gharama za nishati.

Katika kipindi cha mwaka tunaoukariria makakati wa utegemeo wa matengenezo ya mitambo yetu ili kuongeza ufanisi na utendakazi bora uliimarika.

Mtazamo wetu wa Siku za Baadaye

KenGen inajotolea kutekeleza miradi yake iliyopangiwa ili kufikia mahitaji ya umeme ya baadaye ya taifa hili huku ikiimarisha thamani bora kwa wanahisa wetu.

Kwa mujibu wa mkakati wetu wa sasa wa Horizon II strategy, tunapanga kuongeza uwezo wetu wa uzalishaji endelevu kimsingi. Katika mwaka ujao, tunanuia kutekeleza mradi wa uzalishaji nishati wa Olkaria V wa megawati 165.4. Kitengo cha kwanza cha megawati 82.7 kinapangwa kuzinduliwa mwezi wa Aprili 2019 na kitengo cha pili mwezi wa Julai 2019. Tunatarajia kuanza utekelezaji wa Olkaria I Unit 6 (megawati 83) katika mwaka wa kifedha ujao, na kuzinduliwa kama ilivyopangwa katika mwezi Januari 2021. Miradi mingine iliyo mpangoni, kwa jumla ya megawati 472, ni katika hatua mbalimbali za maandalizi na zinazoenea kote katika vyanzo vinavyoweza kurejeshwa kama vile upepo wa mvua, upepo, nishati ya jua na maji. Hii ni miradi iliyopangiwa kutekelezwa katika kipindi cha muda mrefu kati ya 2019 hadi 2022.

Kama Kampuni, kwa hakika tunaishi katika nyakati za kusisimua, ambapo tumekuwa kigezo cha kumbukumbu ya ubora wa uendeshaji katika sekta hii. Mamlaka ya Umeme ya Vijijini imewasilian na KenGen ikitaka wasimamie uendeshaji wa Kiwanda cha nguvu za umeme mjini ya Solar megawati 50 huko Garissa na majadiliano yanaendelea ili kuweka vigezo vya Mkataba wa Uendeshaji na Usimamizi.

Tunajivunia maendeleo haya kwani inamaanisha kuwa sisi hatuafikii tu maamuzi sahihi na chaguzi muafaka kwa kampuni, bali pia tuko sambamba katika kufuatilia na kusawazisha maono yetu ya kuwa viongozi katika uzalishaji wa nishati katika Eneo hili la Afrika Mashariki.

Ili kuwa na uwezo wa kuendelea kujenga na kuimarisha sifa zetu na kudhihirisha uwezo wetu uliyo bora zaidi, wafanyakazi wetu tayari wamepata mafunzo ili kuwa tayari kwa fursa hii mpya ya kusisimua na yenye changamoto.

Kampuni inaendelea kuchunguza ushirikiano na washikilizi leseni ya makubaliano ya udhamini wa maeneo mapya ili kusaidia kuunganisha rasilimali hii safi isidhuru mazingira kwa kufuata ajenda ya upanuzi wa uwezo na kwa manufaa zaidi ya kitaifa.

Hii pia hutumikia kupunguza mabadiliko ya hali ya hewa huku tukiendeleza huduma zetu kwa mazingira na kukuza msimamo wetu kama shirika raia mwema

Tulianzisha mapitio ya muundo wetu wa shirika ili kuhakikisha ustawi unaoendelea unabaki na kuzidi kukabiliana hali ya biashara inayobadilika kila kukicha. Tunatarajia mchakato huo utasababisha kuzingatia zaidi kwenye masuala ya ushirikishwaji wa jumuiya ili kukuza kuwepo kwa ushirikiano kwa manufaa na jamii zinazoishi karibu na mitambo yetu ya uzalishaji nguvu. Tathamini hii pia uinatarajiwa kudhihirisha jinsi ufanisi wa uendeshaji biashara hii unaweza kuboreshwa.

Kama Mkurugenzi Mkuu na Afisa Mkuu Mtendaji wa Kampuni hii adhimu, ninatambua kwa dhati ukweli kwamba uongozi mzuri ndio chanzo cha mafanikio yetu. Kwa hiyo ninanuia na niko makini kuwekeza katika maendeleo ya uongozi kwenye hatamu za ngazi zote katika shirika hili ili kubuni viongozi wenye nguvu na motisha ya kuendelea na safari yetu kubwa ya masafa marefu ya mafanikio.

Hatuwezi kumudu kupumzika hata kamwe na hivyo basi tutafuatilia mipango ya sasa huku tunapoendelea kuchunguza na kuingiza mipango mipya iliyopangwa ili kuendeleza mfumo wa uongozi, upokezi nyadhifa mzuri katika KenGen na kuhakikisha kuwa thamani bora ya kudumu inapatikana kwa wanahisa wetu.

Shukrani

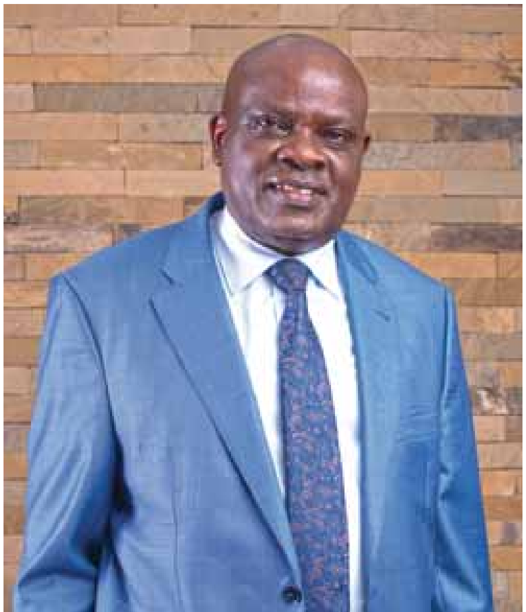
Natoa shukrani zangu za dhati kwa Halmashauri ya Wakurugenzi na familia yote ya KenGen kwa kujitolea kwao na jitihada zao za kufanikisha ajenda ya Shirika hili.

Ninajivunia kazi nzuri tunayofanya hapa na nawashukuruni kwa kujitolea kwenu.

Rebecca Miano (MRS.) OGW
Mkurugenzi Mkuu na Afisa Mtendaji

CORPORATE GOVERNANCE

Who Governs Us



Joshua Choge, MBS

Mr. Choge, Chairman of the KenGen Board of Directors, born in 1958, holds a Bachelor of Science degree in Mathematics and Statistics. Mr Choge has a Master's degree in Management and Leadership from the Management University of Africa and is currently pursuing a PhD in Leadership and Management. He is a trained accountant from Strathmore College and has been trained by the Chartered Institute of Purchasing and Supply, UK, on Procurement Management. Mr Choge has over fifteen years' experience in the public sector in various positions including as Purchasing Manager and the Deputy Chief Internal Auditor at East African Portland Cement.

He is fully conversant with corporate governance matters, having attended the critically acclaimed Corporate Governance Training for Directors, organised by the Centre for Corporate Governance. He has served as a Director at the Agricultural Finance Corporation where he was the Deputy Chairman of the Board and the Chairman of the Finance and Business Committee of the Board.

He is an experienced businessman and a board member of several schools. He is also the Chairman of the Board of the African Inland Church, Kapsabet Bible College in Nandi County. Currently, he is the CEO of Talent Foundation International (TFI), a non-governmental organisation that identifies and develops talent among needy children. He is also a member of the Institute of Directors (Kenya).

Rebecca Miano, OGW

Mrs. Miano, born in 1966, holds a Bachelor of Laws (LLB) degree with Honours, a diploma in Law and a Post-graduate studies in Comparative Law. In 2010, she completed the Advanced Management Programme from Strathmore Business School. She is a registered Certified Public Secretary of Kenya and is a member of the Institute of Certified Secretaries (ICS) and the Law Society of Kenya (LSK). She is a member of the Institute of Directors (Kenya). Mrs. Miano was awarded the Company Secretary of the Year award in 2010 under the auspices of the ICPSK Champions of Governance.

Mrs. Miano has attended various executive trainings including Management of Power Utilities (Sweden) and Program on Negotiation (Harvard Business School)

She was appointed as the Managing Director & Chief Executive Officer on 30th October 2017. She is a respected lawyer with a wide spanning career in the Energy Sector. She has been responsible for driving the corporate governance agenda in the Company, providing guidance and support to the Board and was the Secretary to the Board and all its Committees between 2008 and 2017.

Henry Rotich, EGH

Mr. Rotich is the Cabinet Secretary for National Treasury. Born in 1969, he holds a Master's Degree in Economics and a Bachelor's Degree in Economics (First Class Honours), both from the University of Nairobi. He also holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University.

Prior to his appointment as Cabinet Secretary, he was the Head of Macroeconomics at the Treasury from March 2006. Under this capacity, he was involved in formulation of macroeconomic policies that ensured efficient and sustainable public spending, aimed at achieving the Government's development priorities. In addition, he was also involved in the preparation of key documents including budget statements, as well as providing strategic coordination of structural reforms in fiscal and financial sectors.

Prior to joining the Ministry of Finance, Mr. Rotich worked in the Research Department of the Central Bank of Kenya from 1994. Between 2001 and 2004, he was attached to the International Monetary Fund (IMF) local office in Nairobi as an economist. He is also a director in several boards of State Corporations, including: Insurance Regulatory Board; Industrial Development Bank; Communication Commission of Kenya and the Kenya National Bureau of Statistics.

Joseph Njoroge, CBS

Dr. Eng. Njoroge, the Principal Secretary, State Department for Energy, was born in 1958. He holds a First-Class Honours degree in Electrical Engineering, Master of Business Administration with a major in strategic management and a Doctor of philosophy (PhD). He is a Chartered Electrical Engineer, a member of the Institution of Engineering and Technology UK, a registered consulting engineer, and is also a fellow of the Institution of Engineers of Kenya.

Dr. Eng. Njoroge joined Kenya Power in 1980 and rose through the ranks to become the Managing Director from June 2007 until his current appointment to the position of Principal Secretary in the Ministry of Energy and Petroleum in May 2013. He then became the Principal Secretary in the State Department for Energy following reorganisation of the government structure. He is a distinguished electrical engineer with a career spanning three decades and has wide experience in power engineering and management.

Ziporah Ndegwa

Mrs. Ndegwa, born in 1962, holds a Bachelor of Laws (LLB) degree and a Diploma in Legal Practice from the Kenya School of Law. She is a member of the Law Society of Kenya and Christian Lawyers Fellowship. She has been a practising lawyer since 1988 when she was admitted to the bar.

Mrs. Ndegwa previously served as a State counsel in the Law Reform Commission before entering private practice. She has been a principal partner in Maira & Ndegwa Advocates since 1996 during which she has engaged in civil, commercial and criminal litigation. She is also a member of the Institute of Directors (Kenya).

Who Governs Us

Musa Arusei

Dr. Arusei, born in 1957, holds a Bachelor of Science degree (Geology) from the University of Nairobi, Master of Science (Geochemistry) from the University of Leeds, UK and a Doctor of Philosophy (Geochemistry) from Moi University.

He is formerly a senior lecturer, Department of Chemistry and Biochemistry at the University of Eldoret. Dr. Arusei supervises and marks thesis for doctorate and master's students. He has attended various local and international conferences on research and in the geochemistry field. He has also published several research publications and reports on geochemistry and geothermal studies.

Dr. Arusei has previously worked as a lecturer and assistant lecturer at the Department of Chemistry and Biochemistry at the University of Eldoret. He has also worked as a geochemist in KenGen and the Ministry of Energy. He is also a member of the Institute of Directors (Kenya).

Kairu Bachia

Mr. Bachia, born in 1959, holds a Bachelor of Arts degree in Building Economics from the University of Nairobi and a Global Executive MBA (GEMBA) from United States International University–Africa. As part of continuous professional education and personal development, he has attended amongst many other courses, the Owner Manager Program (OMP) at Strathmore Business School. He is a Registered Quantity Surveyor with the Board of Registration of Architects and Quantity Surveyors (BORAQS), a corporate member of the Architectural Association of Kenya (AAK) and Institute of Quantity Surveyors of Kenya (IQSK); a member of the Chartered Institute of Arbitrators (CIArb); a member of the Institute of Directors (Kenya) and is a Certified Professional Mediator. He is an active Arbitrator and consultant in the areas of Dispute Resolution and Construction Contract Management.

Mr. Bachia who has previously worked as a quantity surveyor in both the public and private sectors, is currently the Team Leader and Quality Control Director of Masterbill Integrated Projects and MIP Project Management Ltd.

He is the chairman the Joint Building Council, a past chairman of the Architectural Association of Kenya; a past chairman and captain of Muthaiga Golf Club (MGC); and a past secretary of the Kenya Professional Boxing Commission (KPBC). He has also served as a Council Member of the management of Professional Centre for the Association of Professional Societies of East Africa and is a committee member in the Ethics and Practice Committee of BORAQS.

Joseph Sitati

Mr. Sitati, born in 1973, holds a Bachelor of Science (Mechanical Engineering) from the University of Nairobi. He is a Fellow of the Association of Chartered Certified Accountants and is a platinum member of the Information System Audit and Control Association. He has attended various professional development training programs.

He has previously been the Chief Finance and Administration Officer at Deacons East Africa PLC, Commercial Finance Manager – Central East & West Africa Business Unit at the Coca-Cola Company, Nairobi, Group Finance Director at Old Mutual Group, Nairobi, and Finance Manager at Shell BP Kenya Limited amongst other positions. He is also a member of the Institute of Directors (Kenya).

Maurice Nduranu

Mr. Nduranu was born in 1974 and holds a BSc (Business Administration-concentration in Finance, Real Estate and Law) magna cum laude from California State Polytechnic University and Master of Financial Engineering from the University of California Berkeley.

He is the Principal (director and shareholder) of Black Gold Investments Ltd, a bespoke transaction advisory for private equity funding. He has previously engaged in financial transaction advisory work in an individual capacity, has been the East Africa Portfolio Manager at Acumen Fund and Property and Fixed Income Portfolio Manager at African Alliance Kenya Management Company amongst other positions. He is also a member of the Institute of Directors (Kenya).

Phyllis Wakiaga

Mrs. Wakiaga, born in 1981, holds a Bachelor of Law from the University of Nairobi, Diploma in Law from Kenya School of Law, Masters in Business Administration from Jomo Kenyatta University of Agriculture and Technology, and Masters in International Trade and Investment Law from University of Nairobi. She also holds a Higher Diploma in Human Resources Management from the Institute of Human Resource Management. She is an advocate of the High Court and a member of Law Society of Kenya. She is also an associate member of the Institute of Human Resource Management. She has also attended various professional legal, leadership and strategy training programs.

Mrs. Wakiaga is presently the Chief Executive Officer of Kenya Association of Manufacturers. She is a member of the Governing Council of the Management University of Africa and the United Nations Global Compact Network Representative in Kenya. She is also a member of the Institute of Directors (Kenya).

Who Governs Us

Reginalda Wanyonyi

Dr. Reginalda Wanyonyi, born in 1960, holds a bachelor's degree in education (economics and business studies) from Kenyatta University, She holds a doctor of Philosophy degree and a master's degree in environmental studies from Moi University. She has served at Moi University as a Head of department, lecturer, senior administrator and a member of the University Integrity service Committee

Dr. Wanyonyi, is the first woman member of parliament for Bungoma County (2013-2017). She was integral to the initiation and passing of key legislation including The Water Act and The Forest Act.

Dr. Wanyonyi is a lead expert with the National Environment Management Authority (NEMA). She is a member of the Kenya Institute of Environment and The Kenya Institute of Directors

She has held directorship positions at the Jomo Kenyatta Foundation (JKF) and New Partnership for Africa's Development (NEPAD). She has been on the forefront in the drive to promote education that has seen her heavily engaged in the distribution of books and school equipment to many schools in Kenya. She has been a board member at Lugulu Girls High School and many other schools.

She is the recipient of the African Women Inspirational Leadership award 2018 by the Mandela Legacy Center for Leadership and Development in recognition of her efforts and inspiration towards improving the social, economic and political status of women in her community.

Dr. Wanyonyi is a family woman and a Christian who is a recognized Jerusalem Pilgrim. She has been a trustee at leading NGOs such as Sacred Africa and Inter-Christian Fellowship Mission (ICFEM).

Humphrey Muhu

Mr. Muhu was born in 1964 and holds a BSc (Mathematics & Statistics) from Kenyatta University, B. Phil (Economics) and an MA in Economics from the University of Nairobi. He also holds a Diploma in Financial Management from KCA University.

He is the alternate director to the Cabinet Secretary, National Treasury. Mr. Muhu is an Economist with over 20 years of experience in various government ministries and departments.

William Mbaka

Mr. Mbaka who was born in 1962 holds a Bachelor of Education (Business Studies) from Kenyatta University and Master of Business Administration from Birmingham University, UK. He is an Association of Chartered Certified Accountant (ACCA). He has attended several courses on leadership, public policy management, financial management and leadership at various institutions both locally and abroad.

He is the alternate director to the Principal Secretary, Ministry of Energy (MoE) and is currently the Senior Deputy Director Budget at MoE. Mr. Mbaka has over 20 years' experience in financial management in the Government of Kenya.

Our
BOARD OF DIRECTORS

Our
MANAGEMENT TEAM

Who Leads Us

Executive Committee (ExCo)

The team is headed by the Managing Director & CEO and comprises of all the Divisional Directors. This Committee serves as a link between the Board and Management. ExCo has a mandate and responsibility to ensure compliance with the statutory and regulatory framework, guidelines and adherence to Company policy and procedures. It convenes its meetings on a weekly basis or as the business may dictate to discuss strategy formulation and implementation, policy matters and financial performance.

Rebecca Miano
Managing Director & Chief Executive Officer

Mrs. Rebecca Miano holds a Bachelor of Laws (LLB) degree with Honours, a diploma in Law and a Post-graduate studies in Comparative Law. In 2010, she completed the Advanced Management Programme from Strathmore University. She is a registered Certified Secretary of Kenya and is a member of the Institute of Certified Secretaries (ICS) and the Law Society of Kenya (LSK).

Mrs. Rebecca Miano was appointed the Managing Director & Chief Executive Officer of KenGen with effect from 30th October 2017. She has been the Company Secretary and Legal Affairs Director of the Company since 2008. She is a respected lawyer with a wide spanning career in law and corporate governance.

Mrs. Miano is responsible for the operational running of the Company to ensure that the mission is achieved, and efficacy of the business is optimized. The CEO is accountable for the Company's actions, security of resources as well as ensuring execution of the identified corporate strategy for long term competitiveness. In addition to representing the management position on the Board, the MD & CEO chairs and supervises the Executive Committee (ExCo) comprising nine divisional directors.

Departments (additional direct reports): Internal Audit and Security & Integrity.

Eng. Solomon Kariuki
Operations Director

Eng. Solomon Kariuki, holds a Bachelor of Science Degree in Electrical and Electronics Engineering and a Master's degree in Business Administration (Operations) both from the University of Nairobi. He boasts an illustrious career in the energy power sector spanning over 28 years.

Prior to the appointment as Operations Director on 1st August 2016, he was the Technical Services Manager. He joined Kenya Power and Lighting Company as a Trainee Engineer 28 years ago and served KenGen in various capacities, ultimately growing through the ranks to the current position of Operations Director.

Key responsibilities comprise overseeing Operations and maintenance of power plants and availability at optimized costs, rehabilitation and upgrade of plants through uptake of latest technology to improve operation and extend effective plant life as well as continuous improvement and automation of systems to align with best practice.

Departments: Eastern Region, Thermal, Upper Tana, Technical Services, Western Region and Operations Dispatch.

CS Paul K. Ndungi
Company Secretary & Legal Affairs Director

CS Paul Ndungi holds a Bachelor of Laws (LLB) degree with Honours from University of Nairobi, and a Diploma in Law from the Kenya School of Law. He is an Advocate of the High Court of Kenya, Commissioner for Oaths, Notary Public as well as a registered Certified Secretary. He is a member of the Institute of Certified Secretaries (ICS) and the Law Society of Kenya (LSK). He is currently pursuing a Master of Laws – Dual LL.M in U.S. Law and International Corporate Law at the Washington University - St. Louis School of Law.

He joined KenGen as the Company Secretary and Legal Affairs Director on July 25, 2018. Prior to joining KenGen, he served as the Company Secretary and Senior Legal Counsel at Barclays Bank of Kenya Limited. He has also previously served in various legal and governance capacities at Ecobank Kenya Limited, I&M Bank Limited, First American Bank of Kenya Limited and M/s TripleOKLaw Advocates.

As the Company Secretary and Legal Affairs Director, he is responsible for, among other things, driving the Corporate Governance agenda of the Company, providing legal guidance and support to the Board and Management as well as supervising the Property and Insurance Departments.

His stewardship has led to international recognition, including selection in 2015 and again in 2017 by The Legal 500, an international in-house lawyer resource organization, to their General Counsel Powerlist: Africa.

Departments

Legal, Shares & Board Services, Property and Insurance.

Abraham Serem
Human Resources & Administration Director

Mr. Abraham Serem is a seasoned human resource practitioner with vast experience both in Kenya and East Africa. He holds a Bachelor of Arts degree from the University of Nairobi. His other professional qualifications include: Higher National Diploma in Human Resource Management and a Diploma in Intermediate Executive Coaching from the Academy of Executive Coaching. He is a member of the Institute of Human Resource Management. Prior experience includes: Heineken East Africa Ltd where he held the position of HR Director, East Africa Breweries Ltd, Nampak East Africa and Reckitt Benckiser East Africa, where he held various senior managerial positions. Mr. Serem joined KenGen management team on March 1st, 2016 as the Human Resource and Administration Director. He is responsible for human capital planning, recruitment, development, performance management, reward and wellness. He is also in charge of employee relations, as well as management of all the Company's transport and logistics.

Departments: Administration, Human Resource Services, Human Resource Development and Talent.

Who Leads Us

John Mudany, CPA(K)
Finance & ICT Director

Mr. John Mudany is a zealous financial management expert with over 30 years extensive experience in business transformation, strategy, marketing, and operational leadership. He holds Master of International Business Administration (USIU, San Diego, California, USA), Master of Business Administration (USIU, San Diego, California, USA) and Bachelor of Commerce (University of Nairobi). He is a member of the Kenya Institute of Management (KIM) and Fellow of the Institute of Certified Public Accountants of Kenya (ICPAK).

Mr. Mudany is actively involved in the development, financing and execution of Vision 2030 flagship Energy Projects. He participated in the development of the Energy Policy and Energy bill 2012. Before joining KenGen in November 2008, Mr. Mudany worked at Coca Cola (Finance and Performance Manager), Orbit Distributors (MD & CEO), Kenya Airways (Head of Finance), World Vision International and PriceWaterhouseCoopers.

Mr Mudany joined KenGen in November 2008 as the Finance and ICT Director. His key responsibilities include: Capital raising, management of finances and banking relations, financial reporting, budgets process management and control, balance sheet restructuring and cost saving mechanisms. He is also responsible for development of Cutting-Edge Information Technology infrastructure.

He has undertaken trainings with various universities, some of which include; Advanced Management Program at IESE Business School (Spain) and Pan Africa University – Lagos Business School, The Effective Director at Strathmore Business School, Leadership and Strategic Planning at London Business School.

Departments: Corporate Finance, Finance and Information Communication & Technology.

Eng. Simon Ngure
Corporate & Regulatory Services Director

Eng. Simon Ngure is a versatile engineer with vast experience in the energy sector management and stakeholder relations. He holds a Bachelor of Science degree in Mechanical Engineering, Diploma in Geothermal Technology, a Diploma in Project Management as well as a Diploma in Executive Coaching from the Academy of Executive Coaching. He is a Certified Energy Manager and a Registered Engineer. He is a member of the Institute of Engineers of Kenya, the Association of Energy Engineers of Atlanta, USA and the current President of the Association of Energy Professionals of Eastern Africa.

He has 34 years' experience in the power sector. He joined Kenya Power in September 1986 and served in KenGen up to his appointment as Regulatory and Corporate Affairs Director in 2008. He is responsible for drafting, negotiating and managing power purchase agreements (PPAs). He is also in charge of environmental and social licensing and management processes as well as maintenance of ISO Quality and Environmental System, Safety, Clean Development Mechanism and carbon credit sales and maximizing brand value through effective corporate affairs management.

Departments: Regulatory Affairs, Quality & Safety, Environment & CDM, Communication and Community Relations.

Mr. Moses Wekesa
Business Development Director

Mr. Moses Wekesa is a seasoned project manager with diverse experience spanning over 17 years in various economic sectors in Europe, Asia, the Pacific and Africa.

He is a registered Project Manager with the Project Manager's Chapter of the Architectural Association of Kenya. He holds a Bachelor of Science degree in Mechanical Engineering (Hons) from Jomo Kenyatta University of Agriculture and Technology (JKUAT), Master of Science degree in Mechanical Engineering (Applied Mechanics) from the University of Nairobi and a post-graduate certificate in project planning, project appraisal and financing from University of Bradford, UK. He has undergone various leadership development programmes and is a graduate of Advance Management Programme from Strathmore Business School.

He was appointed as the Business Development Director in 2014 and is responsible for driving the Company's core business of capacity expansion through planning and execution of projects and development of non-power generation revenue sources through new business. His previous experience includes management of projects in the wide infrastructure sector.

Departments: Project Execution, Capital Planning & PPP and New Business.

Eng. Abel Rotich
Geothermal Development Director

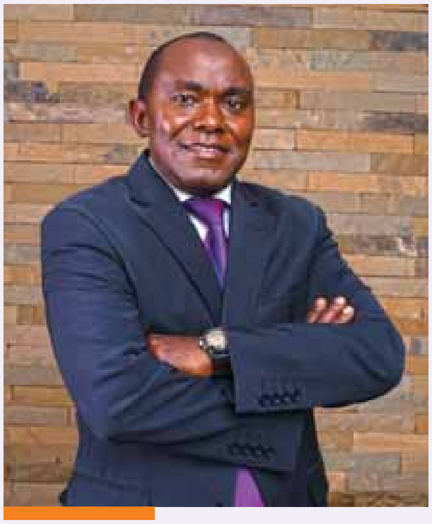
Eng. Abel Rotich has been serving as the Geothermal Development Director since September 2014. Abel is a seasoned power sector engineer and manager with a wealth of experience in power generation ranging from Thermal, Gas, Wind, Hydro to Geothermal. He holds a Bachelor of Science degree in Mechanical Engineering and is currently pursuing his Master's in Business Administration. He holds several project management certifications and is a graduate of Advanced Management Program from the prestigious Strathmore University.

He joined Kenya Power Company Limited more than thirty years ago and rose through the ranks and refinements to the position of Geothermal Development Director in KenGen in September 2014, having previously served as a manager in, Thermal, Gas, Wind and Hydro power plants.

He is the current Chairman of the Geothermal Association of Kenya, a former Branch Chairman of The Institution of Engineers of Kenya and a member of the Geological Society of Kenya. He is a registered engineer and a member of the Institution of Engineers of Kenya (IEK).

He is responsible for geothermal resource development and geothermal plant operations and maintenance. He therefore oversees geothermal planning, scientific works, environmental and social impact management, infrastructure development, geothermal deep drilling, steam establishment for power generation and operation of electricity power plants with an installed capacity of 533.9 MW within the geothermal area. Geothermal power is the baseload source of power to the national grid and thus demands critical management to ensure the high availabilities and best returns for the organization.

Who Leads Us



David Muthike
Strategy & Innovation Director

Mr. David Muthike is a distinguished business strategist with tested experience in power sector strategy-formulation and implementation. He holds a Bachelor of Science degree in Electrical and Electronic Engineering, Master of Business Administration in Strategy, Post-Graduate diploma in Project Appraisal and Management and a certificate in Advanced Management and Leadership Programme. He is a graduate Engineer with Institution of Engineers of Kenya (IEK) and a member of Kenya Institute of Management (KIM).

He joined KenGen in 1998 and was appointed to the Company's Strategy and Business Performance Division in September 2014. A major role of this function is to support the Company in maintaining "thought leadership" in power generation and related services. His responsibilities include: development and management of the Company's strategy by identifying and driving execution of strategic initiatives and growth opportunities; driving the innovation process that develops new ways of meeting the Company's goals; leading and managing the Company's result-based performance and accountability system and driving knowledge harvesting and transfer across the business. He previously worked in various divisions and departments within the Company, including: Managing Director's Office, Corporate Planning, Technical Audit and Institutional Strengthening.

Departments: Strategy and Innovation.

Philip Yego
Supply Chain Director

Mr. Philip Yego is a Supply Chain Management expert with a wealth of experience in the Supply Chain industry. He holds a Bachelor of Arts degree in Economics, Master of Business Administration in Finance, diploma in Purchasing and Supplies from the Chartered Institute of Purchasing and Supply (UK) and a diploma in Purchasing and Supplies Management from Kenya Institute of Management. He is a member of the Kenya Institute of Supplies Management (KISM), Kenya Institute of Management (KIM) and the Chartered Institute of Purchasing and Supplies (MCIPS).

He joined KenGen in October 2014 and is responsible for providing oversight in the efficient and effective operations of the supply chain function of the Company which includes the management of Tenders & Contract, Inventory and Logistic and Supplier Relationship. He is responsible for tenders, contracts, compliance, fuel & general purchases, spares and commodities, planning and inventory. Prior to joining KenGen, he worked in senior management positions in various institutions which include the Kenya Agricultural Research Institute (KARI), University of Nairobi Enterprises and Services (UNES), Uchumi, Postbank and Kenya Commercial Bank (KCB). Beyond the practitioner world, Mr. Yego has added the unique technical skills in the academic sector. He also worked at Kenyatta University as a Lecturer in the same field.

Departments: Tenders, Contracts, Inventory & Logistics.

Corporate governance is the system of rules, practices and processes by which a firm is directed and controlled. Corporate governance involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. At KenGen, corporate governance provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

Organisations should consider having an effective and independent internal audit function that has the respect, confidence and cooperation of both the board and the management. The board should establish formal and transparent arrangements to appoint and maintain an appropriate relationship with the organisation's auditors.

The Board of KenGen is responsible for the overall management of the Company and is committed to ensuring that its business and operations are conducted with integrity and in compliance with the law, internationally accepted principles and best practice in corporate governance. This is key to the enhancement of business growth and stakeholder wealth creation. Our corporate values and ethics are entrenched in our strategic and business objectives, which focus on accelerating value creation for our stakeholders.

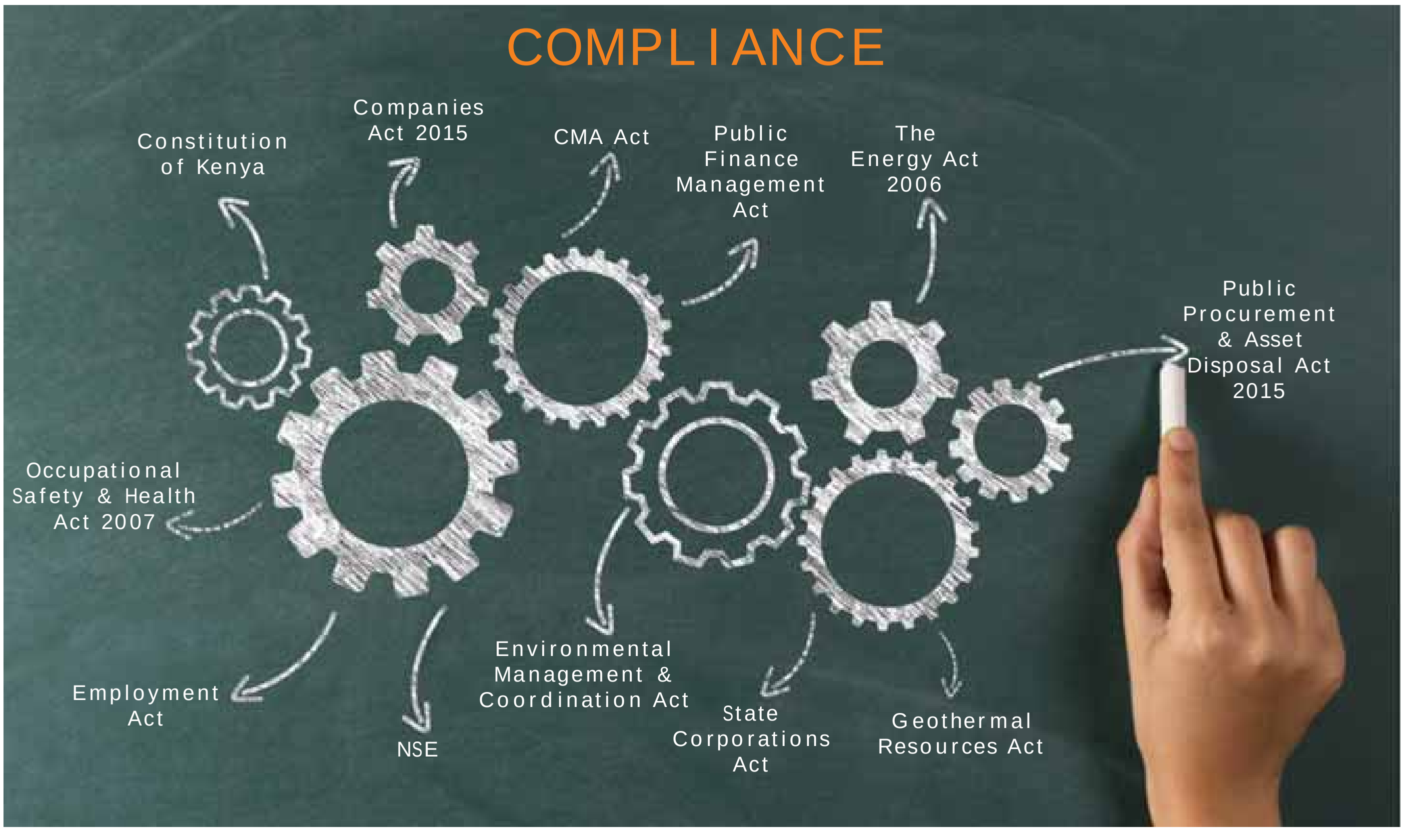
2018 Corporate Governance Statement

Statement of Compliance

The KenGen Board and Management adheres to its continuing obligations as a listed Company in compliance with Capital Markets Authority (CMA) Regulations, the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public (2015) and the ethical standards as prescribed in the Company's Code of Conduct and Ethics.

The Board is committed to the principles of good governance as stipulated in *Mwongozo: The Code of Governance for State Corporations*, which is aligned to the CMA code of corporate governance.

The following are some of the Acts and regulations KenGen complies with:



KenGen complies with ISO 9001:2015 in Quality Management System and ISO 14001:2015 Environmental Management System. This demonstrates our unending pursuit for excellence in the organisation's operations.

CMA has put in place a Capital Markets Master Plan (CMMP) which sets out the strategic direction for the Kenyan capital markets for the next ten years. KenGen has been an active player in the deepening of Kenya's local capital markets. In recognition of this role, the Company was appointed a member of the Working Group One Committee of the Capital Markets Master Plan of the CMMP. The Committee has a mandate of tackling the national funding gap.

Board Charter

The Charter is a critical corporate governance tool of the Board which documents the composition, roles and responsibilities of the Board. This ensures effectiveness of each Director's contribution in the governance of the Company by facilitating independent judgement, decision making and professional competencies.

The Charter provides guidelines to the Board in the exercise of its mandate of:

- appointment, induction, skills requirement, gender mix and capacity development for the directors;
- articulation of, and commitment to, respect of the rights of shareholders;
- separation of roles and responsibilities of the boards individual director;
- conduct of board and committee meetings;
- directors code of conduct; and
- terms of reference for all board members.

The Charter does not replace or supersede any statutory laws and regulations that govern the Company.

Definition of an Independent Director

The *Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015*, issued by the Capital Markets Authority for application by listed public companies, defines an independent director as a member of a board who:

- does not have a material or pecuniary relationship with the company or related persons;
- is compensated through sitting fees or allowances;
- hasn't been employed by the company in an executive capacity within the last three years;
- owns no more than five percent of the shares of the company; and
- has not been in service for nine continuous years.

A continuing independent director ceases to be one and assumes the position of non-executive director if he/she fails to meet the requirements.

Board Composition

The KenGen Board comprises of eleven (11) members; an independent and non-executive Chairman, one executive Managing Director & CEO, the Cabinet Secretary-The National Treasury, Principal Secretary-Ministry of Energy, plus seven independent and non-executive directors. The Board composition is outlined in the Articles of Association of the Company.

During the last Annual General Meeting and as per the Company's Articles of Association on Rotation of Directors; three Board members retired, two of whom were re-elected. Dr. Reginalda Wanyonyi was elected, replacing Mrs. Dorcas Kombo who retired on attaining her allowable board term.

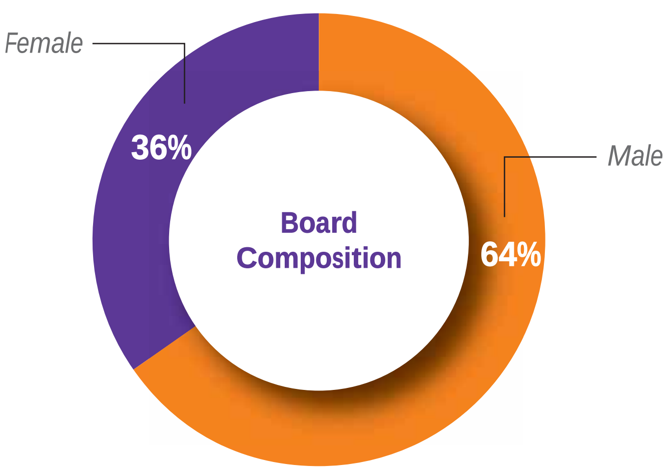
On 25 July 2018, the Board appointed Mr. Paul K. Ndungi as the Company Secretary & Legal Affairs Director after a competitive recruitment process.

2018 Corporate Governance Statement

Board Diversity

The Board comprises of members with diverse skills including Procurement Specialist, Economists, Geochemist, Environment Scientists, Engineer, Accountant, Lawyers, Construction Contracts Management and Financial Engineer.

KenGen continues to comply with the 1/3 gender parity rule as outlined:



The biographies of the Directors are published on pages 32 - 36.

Board Effectiveness

Separation of Powers & Duties

The Boards oversight role is secured through the separation of functions of the Chairman and the Managing Director & CEO, ensuring independence of the Board and Management. This gives a clear-cut distinction between non-executive and executive roles. This also leads to a balance of power, increased accountability, clear definition of responsibilities and improved decision making.

Role of the Board

The Board offers strategic guidance, leadership and control of the Company by defining its strategic intent, its objectives and values. To this end the Board:

- reviews strategic direction and adopts business plans proposed by management;
- monitors management's implementation of the plans and strategies;
- ensures ethical behaviour and compliance with relevant laws & regulations, audit and accounting principles, corporate policies & procedures and the code of ethics;
- evaluates management performance against targets and practices;
- considers and approves the company's overall budget and specific proposals for capital expenditure & acquisitions
- reviews succession planning for the management team and approves senior executive appointments, organisational changes and remuneration;
- constitutes and reviews composition of board committees and approves reports and performance of each board committee.
- approves the quarterly, interim and preliminary financial statements, annual report & accounts, quarterly management accounts, operational report from the Managing Director & CEO and public announcements of a material nature.

Directors Responsibilities

The Articles of Association of the Company and the Board Charter enumerate the responsibilities of the Directors. Execution of the mandate of the Board requires each Director to observe a code of conduct aligned to their duties and responsibilities to the Company and shareholders, and act within limitations as defined in the Charter while in observance to principles of good corporate governance. The Directors undertake to:

- act in good faith and subscribe to uphold and promote effective and responsible use of Company resources with care and prudence in the best interest of the Company;
- familiarize themselves with the relevant regulations and statutes, the Memorandum and Articles of Association of the Company, the Board's operating norms and procedures, and any other issues necessary for the discharge of their duties;
- while considering the financial impact of their decisions, consider the consequences for sustainable development, effect on relations with stakeholders and interest of the society in general; and
- be fully aware that they are individually and collectively responsible for deciding the Company's vision, mission and values, its strategic objectives, ensuring establishment of the organizational structure, as well as ensuring effective control over the Company and accounting to shareholders.

The Company Secretary

The Company Secretary is a member of the Institute of Certified Secretaries (ICS). As the Secretary to the Board and all its Committees, the Company Secretary guides the Board on governance and statutory matters and is the custodian of corporate governance in the Company.

Board Meetings

The Board meets quarterly or more often, in accordance with the requirements of the business.

The Board work plan and calendar are prepared at the beginning of the year and adequate notice is given for all meetings. The agenda and board papers are circulated within the stipulated timelines.

Following the election of one new member at the last AGM, the Committees of the Board were reconstituted in January 2018.

The main Board held eight (8) meetings attended as follows:

	Name	Attendance
1.	Mr. Joshua Choge	8
2.	Mrs. Rebecca Miano	8
3.	Mrs. Ziporah Ndegwa	7
4.	Dr. Musa Arusei	8
5.	Mr. Kairu Bachia	8
6.	Mr. Joseph Sitati	8
7.	Mr. Maurice Nduranu	7
8.	Mrs. Phyllis Wakiaga	6
9.	Mr. Humphrey Muhu	6
10.	Mr. William Mbaka	8
11.	Dr. Reginalda Wanyonyi	3
12.	Dorcas Kombo	5
13.	Albert Mugo	4

Dr. Reginalda Wanyonyi - Appointed on 22 November 2017
Dorcas Kombo - Retired on 22 November 2017
Albert Mugo - Retired as MD & CEO on 26 August 2017

2018 Corporate Governance Statement

Individual Directors Shareholding

No Board member holds in his or her personal capacity more than 1% of the Company's total shareholding. The breakdown of the Directors personal shareholding in the Company as at 30 June 2018 is as follows:

NAME	NUMBER OF SHARES	% HOLDING
Mr. Joshua Choge	14,700	0.000223
Mrs. Rebecca Miano	111,048	0.001684
Mr. Henry Rotich	-	-
Dr. Eng. Joseph Njoroge	100,386	0.001522
Mr. Kairu Bachia	213,300	0.003235
Mr. Maurice Nduranu	100,900	0.001530
Mr. Joseph Sitati	10,000	0.000152
Mrs. Phyllis Wakiaga	336	0.000005
Mrs. Ziporah Ndegwa	1,400	0.000021
Dr. Musa Arusei	-	-
Dr. Reginalda Wanyonyi	-	-
Mr. Humphrey Muhu (Alternate to Mr. Henry Rotich)	7,436	0.000011
Mr. William Mbaka (Alternate to Dr. Eng. Joseph Njoroge)	-	-

Board Remuneration

The Board establishes and approves formal and transparent remuneration policies to attract and retain both executive and non-executive Board members. These policies clearly stipulate remuneration elements such as directors' fees, taxable sitting allowances for meetings attended, travel and accommodation allowance while on Company duty as well as the monthly honorarium for the Chairman.

The Directors' remuneration rates are as outlined in the State Corporations Act and by the Salaries and Remuneration Commission. The Directors' fees are paid upon shareholder approval at the Annual General Meeting. It is proposed that each Director receive a fee of Kshs 600,000 per annum for the financial year ended 30 June 2018.

KenGen does not grant personal loans or guarantees to its Directors.

Directors' Remuneration Report is on page 117 - 119.

Conflict of Interest and Declaration of Interest

The Board members have a statutory duty not to have interests that conflict with those of the Company. All business transactions with all directors or their related parties are carried out at arms' length.

At all meetings of the Board, an agenda item exists which requires members to make a declaration of any interest they may have in the business under discussion. Board Members are mandated to disclose any real or potential conflict of interest.

For any conflict of interest, a Director is obligated to declare the same and exclude himself/herself from any discussion or decision over the subject matter.

Business transactions with the Directors or their related parties are disclosed on pages 170.

Board Committees

The Board Committees are established with written terms of reference detailing their respective mandate.

Following is the list of all Board Committee members.

Audit, Risk & Compliance Committee	Strategy Committee	Human Resource & Nomination Committee	Procurement Oversight Committee	Finance Committee
Mr. Joseph Sitati *(Chair)*	Mr. Kairu Bachia *(Chair)*	Dr. Musa Arusei *(Chair)*	Mrs. Ziporah Ndegwa *(Chair)*	Mr. Maurice Nduranu *(Chair)*
Mr. Humphrey Muhu	Mr. Humphrey Muhu	Mrs. Phyllis Wakiaga	Mr. Maurice Nduranu	Mr. William Mbaka
Mrs. Phyllis Wakiaga	Mr. Joseph Sitati	Mr. Kairu Bachia	Dr. Reginalda Wanyonyi	Dr. Musa Arusei
Mrs. Ziporah Ndegwa	Mr. William Mbaka	Dr. Reginalda Wanyonyi	Dr. Musa Arusei	Mr. Humphrey Muhu
Mr. Kairu Bachia	Mrs. Rebecca Miano	Mrs. Rebecca Miano	Mrs. Rebecca Miano	Mrs. Rebecca Miano

Report from the Chairperson of the Audit, Risk & Compliance Committee

Joseph Sitati
Chairperson

Mandate

The Committee's mandate include:

- monitor and review the integrity of the Company's financial statements, internal financial control and risk management systems;
- monitor and review the effectiveness of the Company's internal audit function;
- monitor and review the External Auditors' (appointed by the Controller and Auditor-General in accordance with Section 2 of the State Corporations Act);
- review audit issues raised by both the Internal and External Auditors; and
- receive, review and evaluate technical, compliance, performance and financial audit reports,

Membership

This Committee consists of up to five (5) non-executive Directors. Appointment to this Committee is for a period of three years, which may be extended for two further three-year periods provided the Director remains independent. Currently the Companies Act, 2015 requires that members of this Committee are approved by shareholders every year during the Annual General Meeting.

2018 Corporate Governance Statement

The Internal Audit Manager is the Secretary to this committee. A representative of the External Auditors is always invited when the Committee is reviewing the audited results.

Attendance

The Committee held nine (9) meetings which were attended as follows:

	Name	Attendance
1.	Joseph Sitati	9
2.	Humphrey Muhu *(Alternate to Henry Rotich)*	8
3.	Ziporah Ndegwa	3
4.	Phyllis Wakiaga	2
5.	Kairu Bachia	9
6.	Dorcas Kombo	5

(Dorcas Kombo was a member of the Committee until her retirement in November 2017. Ziporah Ndegwa and Phyllis Wakiaga joined the Committee when it was reconstituted in January 2018)

Report from the Chairperson of the Strategy Committee

Kairu Bachia
Chairperson

Mandate

The Strategy Committee is constituted by the Board with the objective of assisting the Board in discharging its oversight duties with respect to the overall strategic direction of the Company, operational performance and organizational health. The Committee's mandate include:

- Developing or reviewing the Company's Strategy and investment policies and making appropriate recommendations to the Board on issues of strategy adjustment.
- Developing or reviewing the progress of the Company's Strategy execution plans through, among others, identification of priority areas.
- Evaluating and approving business cases for all categories of investment projects and new ventures, including strategic partnerships within its delegated authority.
- Approving the capital and expenditure budget plans of the Company and any other subsequent budget reviews.
- Overseeing the government performance contracting regime of the Company.

Membership

The Committee comprises of five (5) members of the Board.

Attendance

The Committee held five (5) meetings which were attended as follows:

	Name	Attendance
1.	Kairu Bachia	5
2.	Humphrey Muhu *(Alternate to Henry Rotich)*	5
3.	Joseph Sitati	2
4.	William Mbaka	3
5.	Rebecca Miano	4
6.	Dorcas Kombo	
7.	Albert Mugo	

(Dorcas Kombo was a member of the Committee until her retirement in November 2017. Musa Arusei was a member until the Committee was reconstituted in January 2018. Albert Mugo - Retired as MD & CEO on 26 August 2017)

Report from the Chairperson of the Human Resource & Nomination Committee

Musa Arusei
Chairperson

Mandate

The Committee monitors and advises Management on matters that affect the Human Resource Strategy and employees. The Committee's mandate include:

- continually examine the Company's structure and establishments;
- engagement of senior management staff;
- nomination and remuneration of Directors;
- examine policy and procedures affecting employee life cycle employment and staff promotion;
- review the Collective Bargaining Agreement proposals and make recommendations; and
- propose innovative ideas for transformation of the Company into a world-class enterprise and employer.

The Committee monitors the policies and practices of KenGen in relation to human resources, offers advice and recommendations on the Company's human resource strategies, initiatives and policies; and the Nomination and Remuneration of Directors and Senior Management respectively.

The Committee's duties are based on three broad functions namely the Human Resources, Nominating and Remuneration functions.

2018 Corporate Governance Statement

Human Resources function

The Committee continually reviews the organizational structure, core functions & optimum establishment, policies and procedures on staff recruitment and selection, staff training and development, the performance and reward system as well as the terms and conditions of service in line with the organisation's strategy. Further, the Committee reviews the Company's Human Resource Policies and recommends any amendments to the Board for approval.

Nominating function

The Committee supports and advises the Board on the appropriate size and composition that will enable it to discharge its responsibilities and ensures transparent procedures for selecting new directors for appointment and re-selection to the Board. This includes the evaluation of the performance of the Board, the various committees and individual Directors.

Remuneration function

The Committee reviews the Company's remuneration, recruitment, retention, incentive and termination policies and procedures for Executive Directors and Senior Managers; their basic salary & the criteria for payment of bonuses to all staff. The Committee also considers any recommendations of the Chairman or Managing Director/CEO of the Company regarding payment of bonuses or performance related remuneration.

Membership

The Committee comprises of five (5) members of the Board.

Attendance

The Committee held twelve (12) meetings which were attended as follows:

	Name	Attendance
1.	Musa Arusei	12
2.	Kairu Bachia	4
3.	Phyllis Wakiaga	10
4.	Reginalda Wanyonyi	4
5.	Ziporah Ndegwa	1
6.	William Mbaka	1
7.	Rebecca Miano	11
8.	Albert Mugo	1

(Ziporah Ndegwa and William Mbaka were members of the Committee until January 2018 when the Committee was reconstituted. Kairu Bachia and Reginalda Wanyonyi joined the Committee in January 2018. Albert Mugo - Retired as MD & CEO on 26 August 2017)

Report from the Chairperson of the Procurement Oversight Committee

Ziporah Ndegwa
Chairperson

Mandate

The Committee's mandate include:

- to consider and oversee all the annual procurement plans for submission to the Board;
- to oversee proposals for major procurement works which have a strategic impact on the Company; and
- oversight role to ensure compliance with The Public Procurement and Asset Disposal Act 2015.

Membership

The Procurement Oversight Committee shall comprise of five (5) members of the Board.

Its membership consists of four (4) non-executive directors.

Attendance

The Committee meets as and when strategic procurements need to be reviewed.

The Committee held eight (8) meetings which were attended as follows:

	Name	Attendance
1.	Ziporah Ndegwa	8
2.	Musa Arusei	8
3.	Maurice Nduranu	6
4.	Reginalda Wanyonyi	4
5.	Rebecca Miano	6
6.	Albert Mugo	2

(Reginalda Wanyonyi joined the Committee in January 2018. Albert Mugo - Retired as MD & CEO on 26 August 2017)

2018 Corporate Governance Statement

Report from the Chairperson of the Finance Committee

Maurice Nduranu
Chairperson

Mandate

This Committee oversees the corporate finance matters of the Company, in particular. The Committee's mandate include:

- Overseeing the implementation of the overall investment plan for the PIBO funds, as per the Information Memorandum, Ministerial approvals and asset allocations for cash and cash equivalents with respect to fixed-income securities, and equities.
- Monitoring on a quarterly basis the Company's key financial ratios.
- Overseeing the balance restructuring activities of the Company;
- Overseeing the activities of any Financial Arranger and Advisor in particular, adherence to the terms of reference of the contract;
- Reviewing strategic finance matters and;
- Reviewing policies to do with finance matters such as treasury policies and forex policies;

Membership

The Finance Committee comprise of five (5) non-executive members of the Board.

Attendance

The Committee held six (6) meetings which were attended as follows:

	Name	Attendance
1.	Maurice Nduranu	4
2.	Humphrey Muhu *(Alternate to Henry Rotich)*	5
3.	Musa Arusei	2
4.	William Mbaka	6
5.	Joseph Sitati	1
6.	Rebecca Miano	4
7.	Albert Mugo	1

(Joseph Sitati was a member of the Committee until January 2018 when the Committee was reconstituted. Albert Mugo - Retired as MD & CEO on 26 August 2017)

Internal Controls & Risk Management

The Board confirms its responsibility for the Company's system of internal financial control, including taking reasonable steps to ensure that adequate systems are being maintained. Effective internal control systems have been operationalized to assess and mitigate any risks the Company may be exposed to.

A comprehensive policy on the risk management framework to identify, measure and manage all key risks has been put in place by the Board and integrated into the overall management reporting structure. These risks are further demarcated onto the Strategic Corporate Risk Matrix which is closely monitored by the Board. The Audit, Risk & Compliance Committee of the Board, through its delegated mandate from the Board, regularly reviews the effectiveness of the internal control system. The Head of the Internal Audit & Risk Department reports directly to the Board's Audit, Risk & Compliance Committee.

Code of Conduct and Ethics

At KenGen, good corporate governance is engrained as a valuable contributor to the long-term success of the Company through creation of the right culture throughout the organisation. The core values of integrity, professionalism, team spirit and emphasis on safety steer our Company's organizational health and decision-making processes. Owing to the dynamic business environment, the Company periodically conducts reviews such as the culture baseline survey, to review and further improve the existing culture in the organisation.

The Company conducts its business in compliance with relevant legal principles and high ethical standards of business practice. The Board, Management and employees are required to observe the code and high standards of integrity. Further, these standards are applied in all dealings with customers, suppliers and other stakeholders.

To achieve corporate goals, employees are expected to observe the highest standards of professionalism. Employees have a responsibility to contribute to the good governance of the Company and to maintain its reputation for integrity both within and outside the workplace. The code of conduct provides fundamental principles and guidelines that govern the ethical and legal obligations of all employees at all levels.

All employees are bound by the provisions of the Public Officers Ethics Act 2003, the Company Code of Conduct and any other statutory regulations issued from time to time. In this regard, all employees signed the code of conduct within the first quarter of this year.

At all times, employees will treat colleagues and other stakeholders with fairness, courtesy and sensitivity with respect to their rights and dignity. Employees are expected to have respect for diversity.

Going Concern

The Board confirms that the Company has adequate resources to continue in business for the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements.

Engagement with Shareholders

The Board is committed to provision of regular and timely information to the shareholders. In accordance with Article 137 of the Articles of Association of the Company, the Annual Report & Accounts is posted onto our website at www.kengen.co.ke at least 21 days before the Annual General Meeting (AGM) to ensure that all the shareholders are well informed at the AGM. The interim and annual results are always published in the local daily newspapers. Further, the Company's website offers a platform for shareholders to quickly access corporate information.

All Directors attended the last AGM held on 22 November 2017 and were available to answer questions from shareholders.

2018 Corporate Governance Statement

Shareholders Tour

KenGen organises annual Shareholders Tours to expose shareholders to operations of the Company with a view to empowering them to make meaningful contributions during the AGM. The 2017 Shareholder Tour was held on 9 November 2017 at the Kipevu Power Plant in Mombasa.

Shareholding

In line with the Continuing Obligations for listed companies as prescribed by the Capital Markets Authority and Nairobi Securities Exchange, KenGen files Investors' Returns on a monthly basis.

Top 10 Shareholders as at 30th June 2018

	Names	Number of Shares	% Shareholding
1.	Cabinet Secretary - The National Treasury	4,615,424,088	69.99%
2.	Stanbic Nominees Limited	495,348,189	7.51%
3.	Stanbic Nominees Limited	197,651,000	3.00%
4.	Standard Chartered Nominees Resd A/C Ke11443	65,634,994	0.99%
5.	Standard Chartered Nominees Resd A/C Ke11450	64,702,437	0.98%
6.	Standard Chartered Nominees Resd A/C Ke11401	59,767,480	0.90%
7.	Kenya Commercial Bank Nominees Limited A/C 915a	55,252,921	0.84%
8.	Standard Chartered Nominees Ltd A/C Ke002339	50,000,000	0.76%
9.	Standard Chartered Nominees Non -Resd. A/C 9287p.	36,888,373	0.56%
10.	Equity Nominees Limited A/C 00099	25,596,799	0.39%
	Others	928,256,058	14.08%
	Grand Total	**6,594,522,339**	**100.00%**

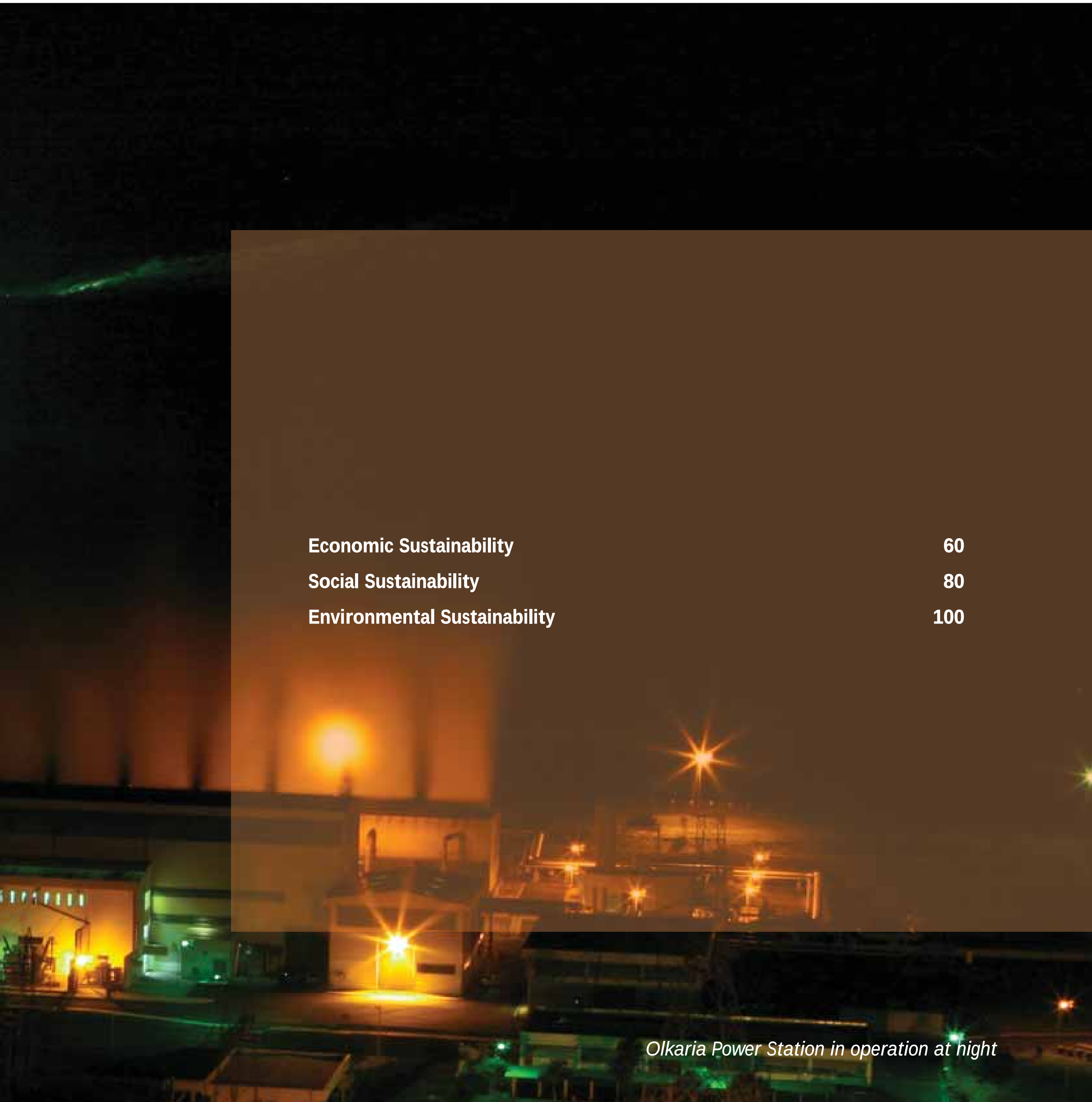
Distribution of Shareholders

Range	No. of Shareholders	No. of Shares	% Shareholding
1 to 500	81,427	19,670,287	0.30%
501 to 1,000	*34,777*	27,701,265	0.42%
1,001 to 5,000	49,807	110,906,864	1.68%
5,001 to 10,000	16,999	114,298,744	1.73%
10,001 to 50,000	6,673	133,337,769	2.02%
50,001 to 100,000	688	48,392,252	0.74%
100,001 to 500,000	461	93,845,990	1.42%
500,001 to 1,000,000	79	56,272,198	0.85%
Above 1,000,000	102	5,990,096,970	90.84%
Total	**191,013**	**6,594,522,339**	**100.00%**

Investor Pools

Range	No. of Shareholders	No. of Shares	% Shareholding
Local Institutions	8,078	5,174,760,925	78.47%
Foreign Investors	980	845,109,089	12.82%
Local Individuals	181,955	574,652,325	8.71%
Total	**191,013**	**6,594,522,339**	**100.00%**

SUSTAINABILITY



Olkaria Power Station in operation at night

Economic Sustainability

Financial Sustainability

Financial sustainability is a key focus for our business in ensuring that we provide sufficient electricity and make investments to meet growing demand while remaining a profitable business. The primary revenues for the business come from power generation.

Funding Activities

KenGen is currently implementing several projects towards additional capacity by the year 2025. Over USD 5 billion of potential funding sources has been identified and plans are being pursued to secure the rest of the required funding.

Innovative Financing Initiatives

To progress the Government's intent for accelerated investment in geothermal power generation (that offers base load operation at one of the lowest costs among the generation sources), the Company is working in close collaboration with the National Treasury to develop a 140MW Geothermal power plant in Olkaria 6 through a Public Private Partnership (PPP) arrangement. A transaction advisor has been engaged and is currently finalizing the feasibility study.

Value Added Statement

During the year under review, the Company continued to make a significant contribution to the economy and society as it carried out its business responsibly and engaged in corporate social investment activities. Our value addition is a demonstration of our achievements. Below is our value chain model

Our inputs	Our resource usage	Our contribution to economy	Our strength
Financial	• Revenue • Borrowings • Risk management	• Payments – suppliers, business Partners • Investments • Profits • Taxes • Dividends • Retained earnings	• Sound corporate governance • Ethical business conduct • Employer of choice • Quality assurance • Operational efficiency • Sustainable use of resources • Research and innovation
Human Capital	• Employees welfare • Employee development and growth	• Remuneration, Staff training & development and Employee welfare • Experience • Diversity	
Power Generation	• Operation of power plants • Construction of new plants and related infrastructure	• Efficient electricity generation • Additional megawatts to the National Grid	
Innovation	• Technology and Systems • Operating procedures and processes • Research and development • Diversification	• Reliable, Safe and affordable electricity • Improved operations • Technology & technical capacity	
Social & Relationship	• Social investment	• Social investment • Social licence • Affordable power • Best business practices	
Natural Resources	• Fuels • Steam • Electricity and Water	• Sustainable usage • Carbon Credit Development Management	

Wealth Creation and Distribution (Kshs)

Customers
- Revenue

47,856M

Human Capital
- Remuneration
- Employee welfare

6,132M

Government (taxes)

4,188M

Shareholders
- Proposed dividends

2,638M

Financiers
- Interest

3,037M

Investments
- New power plants

15,311M

Communities & Social Relations
- Empowerment of youth, women and persons with disabilities

1,544M

Suppliers
- Payments to suppliers

15,006M

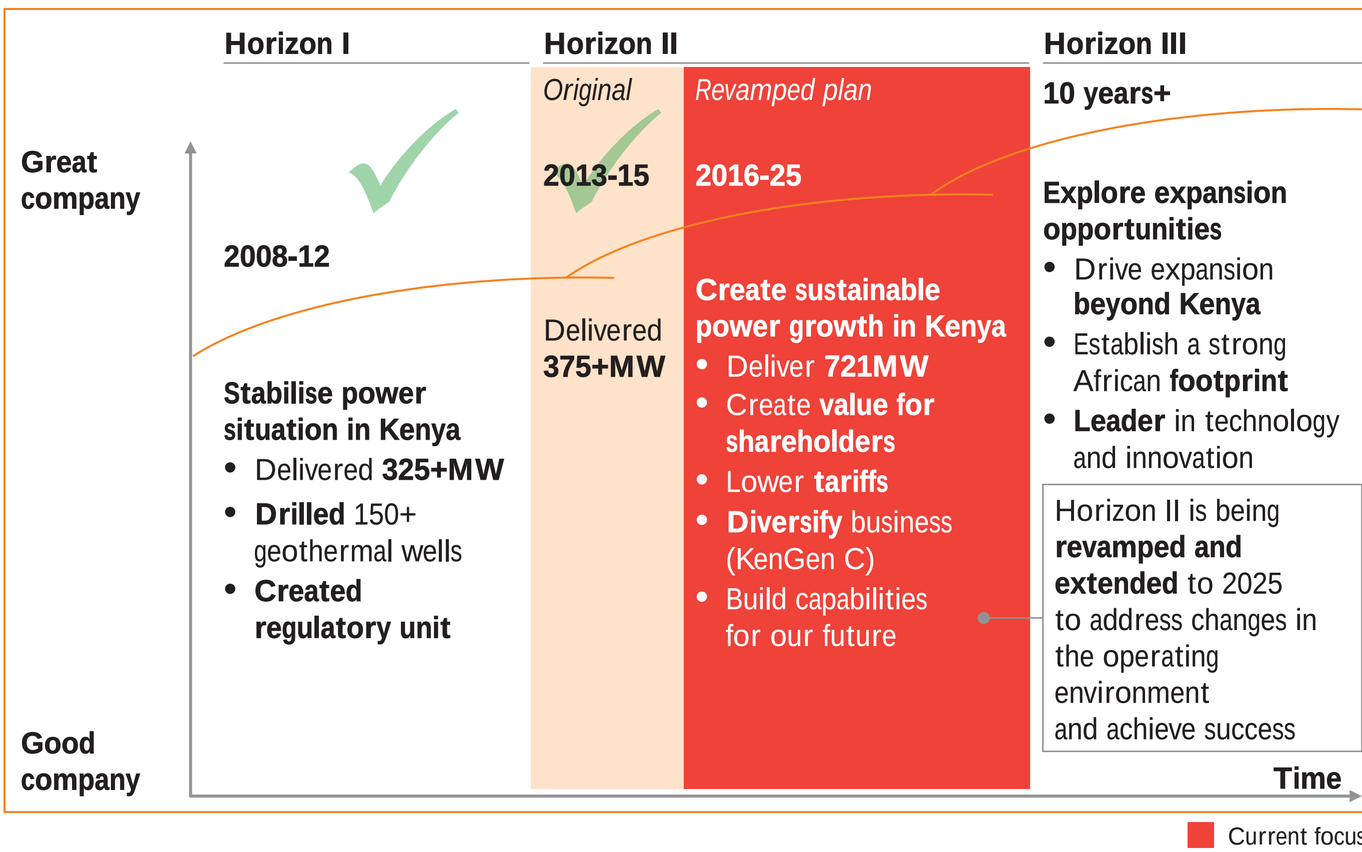
Economic Sustainability

Horizon II Strategy

The G2G strategy was to be implemented across three horizons, the first one lasting from 2008 to 2012 with the objective to stabilise the power situation in Kenya.

Horizon II was launched in 2013. However, as a response to the changes in the external operating environment, it was revamped in 2015 with the aim of creating sustainable power growth in Kenya for the next ten years.

Horizon III, past 2025, will explore expansion opportunities to drive growth beyond Kenya, establish a strong African footprint, and become a regional leader in electricity generation technology.



KenGen adapted the pillars of the Good 2 Great strategy in response to the changing environment. These changes focus on the regulatory management pillar (which was enlarged in scope to include financing), and the strategy's foundation of organisational health (which now incorporates the impact of the aspired growth trajectory on the organization).

Kenya's Power Sector Objectives

The Government's Power Sector Objectives are to grow power supply to support Kenya's growth, lower cost of electricity and increase renewable energy sources.

KenGen's aspirations are aligned with and support these Government objectives under the President's Big4 agenda. To spur Industrialization, KenGen plans to increase capacity – most of which is in geothermal – by 721MW in the medium term (with the aspiration to remain the most relevant player in the market at 50+% share), supplying affordable renewable electricity and creating value for shareholders.

Power Sector Objectives and KenGen Aspirations

Government power sector objectives

- **Grow power supply** to support Kenya's demand growth
- Achieve **lower cost of electricity**
- Increase **renewable energy** sources

Our Horizon II aspirations

Capacity increase	• Increase capacity by 721MW to **remain relevant player** in the market (50+% share)
Value creation	• Provide an adequate **return to shareholders**
Lower tariffs	• Profitably supply **cheaper renewable electricity** to the country

KenGen
Energy for the nation.

Key Achievements of the Revamped G2G Horizon II

Since its adoption in 2016, the revamped G2G Horizon II strategy has led to significant achievements. In the capital planning and execution pillars, KenGen delivered 25+MW of new generation capacity from wellheads, drilled 26 geothermal wells versus the target of 20, and advanced over 500MW of projects past feasibility study phase to construction and commissioning by 2022. In line with the focus on organisation health, the Company has launched a robust program to train its leaders on coaching and mentoring in a bid to improve its leadership health.

Economic Sustainability

Capacity Development Progress

Electricity Demand Growth

Kenya's electricity demand has been on an upward trend, increasing from 1,044MW in 2008 to 1,802MW in 2018. This represents an annual average increase of 6%, driven by increased customer connectivity, demography and GDP growth. KenGen forecasts an additional capacity of 721MW to meet the growing electricity demand by 2025.

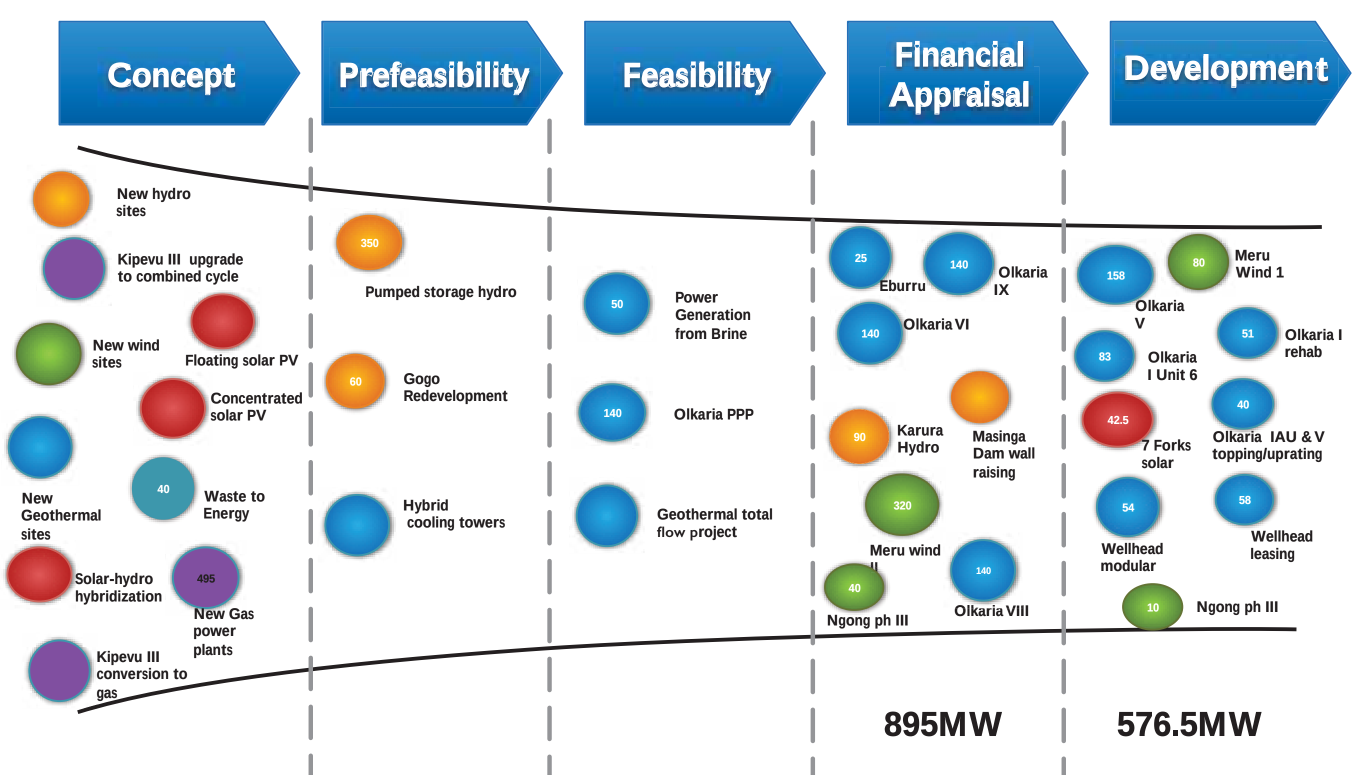
Project Funnel

The Company has a detailed project development process that begins with an analysis of conceptual ideas. Thereafter a preliminary evaluation of concepts known as a pre-feasibility study lays out and selects the best project options, both technically and financially. A detailed study on the selected projects is then undertaken to determine the technical, financial and environmental feasibility. The feasibility study determines whether or not the project should be advanced to be final engineering and construction stage and is a "go/no-go" decision point.

Financial appraisal is carried out for projects with positive feasibility outcomes. During appraisal, funding, financial structuring and detailed environmental and social impact assessment (ESIA) of the project is undertaken to engage the relevant stakeholders.

Project development is the last stage, where we conclude the long term power purchase agreement, financial closure, contracting and commencement of construction works. A summary of our project funnel at various stages of evaluation and development is as follows:

The KenGen Project Funnel



Ngong Wind Farm

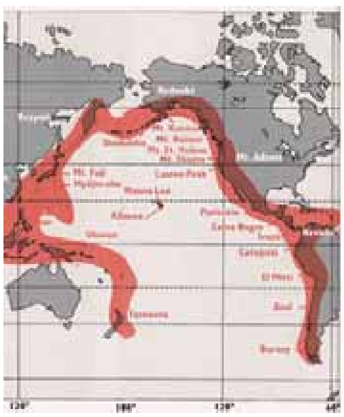
Capacity Expansion Mix

The Company's mission is to develop reliable, affordable, safe, quality and competitively priced electricity. To achieve this, the Company has strategically focussed on renewable energy sources readily available within our borders. Geothermal, with a potential of about 10,000MW, is the central focus of our expansion strategy. Wind, solar, and hydro diversify our generation mix to ensure we provide competitively priced renewable energy without reliance on expensive imported fossil fuel. During the year, the Company progressed eighteen projects which are at various stages of development.

Economic Sustainability

Powering from the Earth

Geothermal is a rare treasure gifted to very few countries in the world. This great treasure is mapped out worldwide as the ring of fire.



Geothermal energy is a unique renewable source of energy because of its high reliability that enables it to be a perfect source of baseload energy.

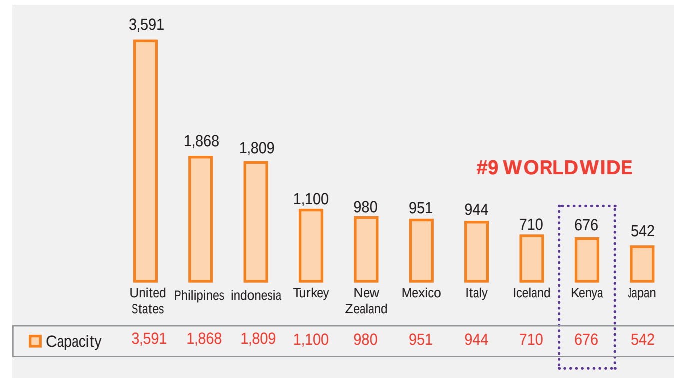
KenGen has therefore embarked on a strategic plan to develop geothermal energy to be Kenya's main source of electricity.

Geothermal energy development is all about tapping the hot fluid from our deep reservoir at a depth of 3,000M to 3,500M and channeling it to our geothermal power houses to turn steam turbines and generate firm electricity to the grid network for consumption.

To guide our elaborate and ambitious plan, KenGen has appointed a group of experienced professionals, cutting across various fields of geothermal energy development, to review and guide our processes as per best practice.

Our development framework has successfully built our capacity and positioned KenGen as the leading African Geothermal consultant and Kenya as a top geothermal producer worldwide.

Global Geothermal Development Ranking



Among our greatest achievements is the delivery of a 30MW well, which significantly drives improvement in margins through savings from cost of drilling more wells for steam as well as the steam field connection costs.

For all our geothermal projects, we have targeted the optimum steam status to ensure delivery of the Projects. We have more of the proven steam status for the project pipeline.

Our Geothermal Centre of Excellence established significant milestones in conducting accredited training programs for international students to grow capacity. In recognition of our capacity, the World Bank, through the Ministry of Education, gave us a grant to foster our center of excellence.

This year was marked by a grand international partnership between Kenya and Djibouti to commercially develop Djibouti's geothermal resource, courtesy of Kenya's unmatched geothermal development expertise. As we set out to a new year, the momentum is on our side and we believe the traction we have employed will foster our geothermal development agenda to earn us a position in the coveted Geothermal Gigawatt Club.

Operational Excellence

At KenGen, we define Operational Excellence as doing the right thing the right way first time. The Company has a dedicated diverse team steering the continued implementation of this strategy.

In KenGen, Operational Excellence is building a sustainable competitive advantage through company wide operations management which focuses on having the best work practices and business processes. This ensures proper and consistent application of standard procedures and systems to guarantee safe, quality and reliable outcomes. We are committed to supplying competitively priced electric energy to the nation and therefore value the business advantage arising from running the organization in an operationally excellent manner.

As the leading power producer in the country, we are alive to competition and the ever-changing market dynamics. To maintain market leadership and continue to contribute to the noble goal of electrifying the economy and Kenyan homes, we are dedicated to operational excellence as a key business strategy. This is a strategy that continues to serve us well by enhancing corporate reputation, optimizing project capital outlay and minimizing operational & maintenance costs, thus ensuring the continuing competitiveness and affordability of the power that we so proudly provide to the nation.

The weighted load factor increased year-on-year from 87.18% to 91.46% for Geothermal Plants, with the factor for Hydro Plants remaining steady due to poor hydrology. The positive operational performance partly attributable to this strategy provides the necessary finances for ongoing and future investments in renewable projects to meet future demand.

We continually update performance indicators to ensure setting of metrics that reveal true business performance and correctly reflects the contributions and efforts of teams. This way, the Company rewards individual efforts fairly and institutes programs to address any skills gaps identified.

Our leadership development programs develop leaders across the business to effectively addresses succession challenges. Optimizing operations and maintenance costs achieves positive operational results across all functions with the outward manifestation of outstanding corporate financial performance of the Company.

We continue to invest in operational excellence out of a realization that it is a journey not a destination, a journey that calls for constant nurturing and sustained attention to global Best Practices.

Performance of the Generation Fleet

KenGen's modes of generation are; hydro, geothermal, wind, and thermal. Our major power plants, with firm primary resources, operate under a capacity-based power purchase agreement in which some of the key performance indicators comprise of Plant Availability and Operations and Maintenance Costs. Capacity power purchase regimes guarantee returns based on plant availability, irrespective of actual plant dispatch. Plants without dispatchable resources, small Hydros, Well-Head Geothermal Plants and Olkaria I operate under energy-based power purchase agreements, in which revenues are mainly dependent on Dispatch. Plant load factor is therefore an effective measure of performance for energy-based power plants.

During the year, the plant performance improved as evidenced by higher availabilities compared to the preceding year, with the percentage average availability for major Geothermal Plants rising from 94.05 to 96.25. Hydro Plants remained steady due to the impact of poor hydrology. This is a testament to the continuing adequacy and suitability of our operational excellence strategy. Key highlights of this robust strategy are the good maintenance and operation policies and procedures for our generation fleet.

Economic Sustainability

Major elements that continue to contribute immensely to the good operational results that ultimately drive financial performance include the following:

- Annual Operation and Maintenance programs
- Preventive Maintenance Planning (Annual maintenance Plans/Calendar)
- Dam level and Cascade Management
- Plant Operations and Dispatch Planning
- Accurate and prompt plant capacity declarations
- Performance Measurement and Evaluations (Performance Boards, Performance Dialogues)
- Review of Key Performance Metrics and Indicators
- Corrective Maintenance Strategies for timely plant restoration
- Reliability Centered Maintenance
- Process Flow Diagrams
- Root Cause Analysis (Lean Sigma)
- Spares Management, Contract Framework & Agreements
- Staff Professional and Personal Development
- Internal Training Programs for knowledge transfer among staff
- Employing global best practices gained through initiatives such as partnerships

Implementation of open and home-grown innovative solutions have continued to positively contribute to optimal performance of all our plants.

Maintenance & Operations Strategy

The Company continues to innovate and adopt modern maintenance practices and supporting systems and tools targeting optimizing availability of its generation fleet. Currently, we are utilizing two major maintenance practices comprising reliability centered maintenance (RCM) and total productive maintenance strategies.

The shift and broadening of condition-based to RCM approach is a deliberate choice informed by realization of the expected additional benefits. Condition-based strategy is all about real-time monitoring and predictive maintenance while reliability centered maintenance entails real-time monitoring, preventive, predictive and pro-active maintenance.

Total productive maintenance (TPM) strategy is designed to enhance plant availability, reliability and performance across the business. TPM has enabled the Company to focus on continued utilization of pertinent problem solving and improvement tools, systematic approach, total employee participation from top to bottom in plant and equipment optimization and leveraging best practices for hastened team development to drive total organizational value.

Maintenance Systems and Tools

KenGen runs three maintenance systems and tools to guarantee high plant availabilities:

- Workplace organization (5S)
- Pre-outage preparation (SMED)
- Root Cause Analysis (Lean Sigma)

Single-Minute-Exchange of Die (SMED) is a system that entails proper planning to ensure availability of spares, tools, teams, and completion of pre-outage tasks prior to shutting down the plant for maintenance.

During the year, continued implementation of the workplace organization methodology has eased access of tools, improved storage of maintenance equipment, promoted efficient sorting and storage of spares as well as contributed to safer work environments. This has led to greater efficiency across the entire business spectrum.

We continue to implement a structured root-cause analysis approach to generation of long-term solutions to our challenges and issues. Lean Sigma has been adopted as the root-cause tool resulting in alignment of thought process and bringing certainty to resolution of issues assuring consistency of results. This has reinforced our KenGen way of doing it right the right way first time.

Support Management Systems

The Company's operational excellence agenda is built and based on systems to ensure consistency of approach and results. We have therefore established and continue to maintain the following management systems to facilitate the embedment of this culture:

a) Quality Management System (ISO-Certified)
b) Environmental Management (ISO-Certified)
c) Safety Management
d) Energy Management
e) Procurement Strategy (Total Cost of Ownership & Contract Agreement)

The quality management system continues to reinforce the inculcation and embedment of the positive culture of working around shared vision and strategy, shared strategic policies and goals and alignment of objectives from top to bottom and across functions to enable the varied Company disciplines work in sync and synergize.

Our power plants are sited and spread all over the country in areas with sensitive environmental concerns. The continued maintenance and implementation of the environmental management system galvanizes our efforts in promoting our sustainability agenda by ensuring that we harness resources and operate plants in an efficient and environmentally acceptable manner with due respect and regard for future generations.

Safety continues to be one of our core values and a key tenet of our operational excellence strategy. We are cognizant of the fact that safe, healthy and motivated staff are the key drivers of this strategy and hence the safety of our staff, visitors and stakeholders is a primary concern. At KenGen, we believe that safety begins with the individual. As such, we continue to invest in staff training to upscale the safety consciousness within the entire Company.

Occupational Safety and Health

- Promotion of safety culture activities continued during the year. These included a safety week in Eastern Hydro held from 24 to 28 July 2017 as well as a safety week in Olkaria held from 11 to 15 December 2017
- KenGen has initiated a partnership with St. John Ambulance services to enable training and improved competency and skill development for the Company first aiders.

Training the public on fire fighting at Sondu during a safety week on 9 April 2018

Economic Sustainability

Pulling together- central office safety week 2017

KenGen participated in the national celebrations of the World Day for Safety and Health at Work (SafeDay) as well as the World Day against Child Labour (WDACL) by releasing our staff to make presentations at the Machakos county venue where the celebrations were held.

Our first aiders from Kipevu were invited to perform after being the best in the country in St Johns Ambulance First Aid competitions. Other milestones were:

a) Conducted initial partnership meeting with St. John Ambulance to develop a roadmap for the partnership that will entail training and improved competency and skill development for the Company first aiders.

b) Conducted preliminary fire survey at Olkaria IAU in order to assess the current fire safety preparedness level and to develop an assessment tool to be used Company wide during planned internal fire surveys.

c) Statutory inspections of lifts, lifting equipment and fire equipment, and health & safety audits were completed for Eastern Hydros.

d) Workplace registration ongoing for Geothermal and Eastern Hydros.

e) Safety induction conducted for new cleaning service providers at central office.

Safety Risk Management

KenGen continues to undertake risk assessment of its business in order to strengthen the controls and prevent business disruptions. This entails undertaking job analysis, identification of hazards and risks associated with the work and developing measures to prevent an incident. A risk register is maintained and regularly reviewed for relevance, as the conditions of our workplaces are dynamic. Where an incident occurs, KenGen focuses on protection of life and has put measures to safeguard life and property. These include adherence to safety designs of our plants, strengthening barriers that reduce spread of harm and continual training and awareness of staff with skills to detect and appropriately respond to emergency situations.

KenGen has gone further to put measures for business recovery and continuity planning to enable the business resumption of critical services as fast as possible. This is in recognition of our critical role to provide reliable energy to the nation and delivery of the government agenda.

Procurement Strategy

Total cost of ownership (TCO) concept in procurement and management of assets is a facet of excellence that the Company continues to cherish. This concept has shaped our approach to procurement of plants, resulting in evaluation of life-cycle costs rather than only upfront costs (which may be deceptively lower). To mitigate long procurement lead times and danger of non-genuine critical spares, the Company continues to embrace the practice of contract frameworks and agreements. This has resulted in substantial improvement in plant availability, as evidenced by improved availability for the Kipevu Power Plants.

Energy Management

KenGen is proud of its record in energy efficiency and management issues. Initiatives such as the energy back-feed project to minimize back-feed energy is ongoing in our power plants. Solar lighting projects have already been implemented in several stations and the Kipevu solar project to provide power for plant auxiliary consumption is ongoing.

Energy audits are conducted regularly in all our installations and the recommendations are implemented, resulting in enhanced efficiency of systems and improved effectiveness in utilization of resources.

Business Automations and Visibility

During the year, the Company continued to invest in scaling up of the capability and functionality of the enterprise resource planning system to enhance business visibility and address the interfaces between the different functions in the Company. With this increased capability, virtually all Company business is conducted on the same platform, which is able to capture the interdependencies between the varied functions. The flow of business is therefore transparent to all and the necessary facilitation required to address any arising bottlenecks is provided in a timely manner by the correct stakeholders.

This upgrade is a shot in the arm for the drive for excellence across the whole Company, since it eases the management of interfaces between functions. With this transparency, it is now possible for all staff to appreciate the contributions of colleagues and innovate collectively around problems

Generating Plant Controls Upgrade and Re-Engineering

The Company is committed to modernization of control and protection systems for existing plants to enhance reliability, ease spares accessibility and optimize operating and maintenance costs. The modernization of the control systems for Sang'oro Power Plant is ongoing.

During the year, we took advantage of the relocation of the Embakasi Gas Turbine Plant from Nairobi to Muhoroni to initiate the ongoing upgrade of the Turbine Governor controls, Generator Excitation controls and the switchgear to assure enhanced plant availability.

During the year, the Geothermal Well-head generator excitation controls were re-engineered, using local expertise, to provide the capability of running and loading the Units with automatic voltage control mode. This mode, as opposed to alternative modes, provides improved stability, allowing the plant to ride through system faults.

This initiative, together with plant improvement measures, have boosted the availability and load factors of the Well-Head Units, resulting in improved operational performance.

The Geographical spread of the Olkaria Geothermal Well-head Plants is quite wide, resulting in administrative and operational challenges that mitigate against high plant availabilities. During the year, the Company initiated a centralization program to enhance visibility and controllability of the Units, with a view to optimizing costs of operating and maintaining these plants.

The SCADA-based control system to provide remote control and monitoring capability is being reviewed internally to enhance the Company's capacity to engage in external commercial consultancies.

Partnerships, Staff Development & Best Practices

We recognize that operational excellence is a journey not a destination, but we have come this far on this road because of the commitment and dedication of staff guided by our core values of team spirit, integrity, professionalism and safety.

KenGen values teams, as we appreciate that strategy or technology may no longer necessarily be the ultimate competitive advantage but rather the power of teamwork and building effective relationships with stakeholders. The launching of service charters outlining service-delivery commitments, complete with timelines and measurable metrics of performance, is expected to promote transparency and improve customer satisfaction leading to better performance.

KenGen continues to invest in several staff development programs to scale-up their skills, competencies and leadership readiness. Staff have been provided the platform and the latitude to express themselves to their fullest potential in addressing challenges, innovating around problems and providing home-grown solutions that will spur the Company to scale higher heights to success.

Economic Sustainability

We continue to deliberately build effective relationships with stakeholders both internally and externally to unlock opportunities in our continued pursuit of excellent operational results.

We are broadening our horizons by developing partnerships with best practice companies in plant operations and maintenance to scale-up our knowledge in readiness for emerging challenges. During the year, a team of our engineers visited a best-practice Canadian firm known as Manitoba to exchange innovative ideas and appreciate best practices. KenGen intends to enter into a partnership with this firm to facilitate enactment of exchange programs, whereby our engineers will be attached at their plants for capacity building and skills transfer. The lessons learned will then be analyzed for suitability prior to adoption and sharing across the business.

Automation of Our Processes

One of the key focus areas of our strategy is to leverage on information technology to enhance operational excellence. During the year, we implemented a number of system upgrades geared at enhancing turnaround time.

1. Project Mwangaza (SAP upgrade)

The Company has upgraded its Enterprise Resource Planning (ERP) System to achieve the following:

a) Enhanced in-memory database capability

This system upgrade has enabled faster transactions through combined database, data processing and application platform capabilities in-memory increasing the efficiency.

b) Supplier Relationship Management (SRM)

We have set up an e-Procurement platform, Supplier Relationship Management (SRM), that has enabled the Company to interact with suppliers online, eliminating the need for paper based tendering process.

c) Project Portfolio Management (PPM)

During the year, KenGen launched Portfolio and Project Management (PPM), which is a centralized project repository that helps the Company to manage the full project lifecycle, gain real-time insights into project progress and cost performance across all locations. The tool shall support KenGen in prioritization of projects and optimization of the entire project portfolio.

d) Mobility on FIORI

ICT has incorporated Enterprise Applications on SAP Fiori and SAP Work Manager to align with the mobility trends, increase user flexibility & effectiveness and enhance operation excellence. SAP Fiori offers KenGen decision makers with a new user experience via use of a set of applications used in regular business functions like work approvals, financial apps, self-service apps currently available on tablets and smartphones.

e) Work Manager

Work Manager is a comprehensive mobile solution for KenGen Maintenance and Operations processes targeting maintenance and the field service employees. It will ease use of the SAP Plant Maintenance (PM) by providing an online and offline access, allowing employees working from the field to access, complete, and manage work orders and service requests via mobile devices. This will empower the workforce to efficiently inspect, maintain and repair assets in the field/ shop floor anytime and anywhere, regardless of connectivity.

2. Cloud Applications

With the deployment of Microsoft Office 365 and publishing of key corporate applications, such as e-mail, Workflow and Extranet, staff mobility has been enhanced. KenGen staff can now work anywhere, anytime and access all corporate resources. This will increase productivity and efficiency.

3. Overcoming the Geographical Barriers

KenGen has invested in Audio-Visual systems that allow staff to hold local and international meetings on a digital conferencing platform. Multiple mobile devices: iPad, smart phones, tablets and laptops, can be used to join these meetings anywhere, anytime. The systems can also be used for remote presentations through remote audio-visual interactions. This has not only reduced traveling costs but has only increased productivity.

Securing Our Future

The Kenyan energy market continues to evolve, with changes driven by global energy market best practices and legislative reforms as undertaken by the Government of Kenya. The reforms process is intended to stimulate competition and enhance efficiency, leading to affordable power supply to customers.

Technological advancement in renewable energy generation has significantly reduced the cost of power. Kenya's abundant green energy resources have shaped KenGen's expansion strategy in power development.

To solidly secure our revenue streams, KenGen has signed power purchase agreements that ensure all risk allocation during power plant construction and operation are fully mitigated. Our agreements are carefully structured to ensure maximum returns for our stakeholders while balancing the need for affordable power.

Economic Sustainability

Change in Law in the Regulated Environment

The Company operates in a highly regulated environment and continues to engage stakeholders to come up with ways to mitigate possible risks that can emerge with change in law or change in regulation. KenGen deliberately profiles the risks that have adverse impact on long term agreements.

The financial implications that arise from changes in the law (including tax law), or rules (or their interpretation) affect the various parties at different levels in the energy value chain. These risks need to be mitigated without causing market disruptions while safeguarding our stakeholder returns.

Evolving Regulatory Issues

In addition to generating energy to serve demand, generators in a power system are also major providers of an array of ancillary services that support system reliability. A subset of these ancillary services are commonly procured through market-based mechanisms: namely, Regulation, Spinning, and Non-spinning Reserves.

The ongoing restructuring of the power sector has led to a further unbundling of the sector, both in terms of services offered and its value chain. This has led to entry of external players with renewable energy sources that are intermittent in nature.

To address challenges that renewable energy sources introduce to the grid, KenGen is pursuing establishment of a business model that will provide commercial Ancillary services to the grid.

In addition, KenGen is working in collaboration with other power sector players to come up a Hydro Risk Mitigation fund (HRMF) that is intended to cushion the sector against adverse hydrological fluctuations associated with Climate Change. Other regulatory issues of interest to the sector being pursued collectively include; tariff rationalization, demand growth and power transmission line constraints.

Ongoing Power Sector Engagements and Representation

KenGen continues to engage power sectors players in order to ensure that the sector develops plans that are aligned with stakeholder's long-term interests. These proceedings may be technical in nature or may be issues of interest to our business. Some of the sector engagements where KenGen is well represented include: Energy Bill 2016 formulation, Least Cost Power Development (LCPD) and ongoing sector Operational Committees.

In the course of the project development cycle, KenGen ensures stakeholder's inclusivity to streamline the project path, addressing the concerns and needs of all at every stage of the development cycle. This ensures that there is efficient and effective project delivery on time and on budget.

Innovation and Diversification

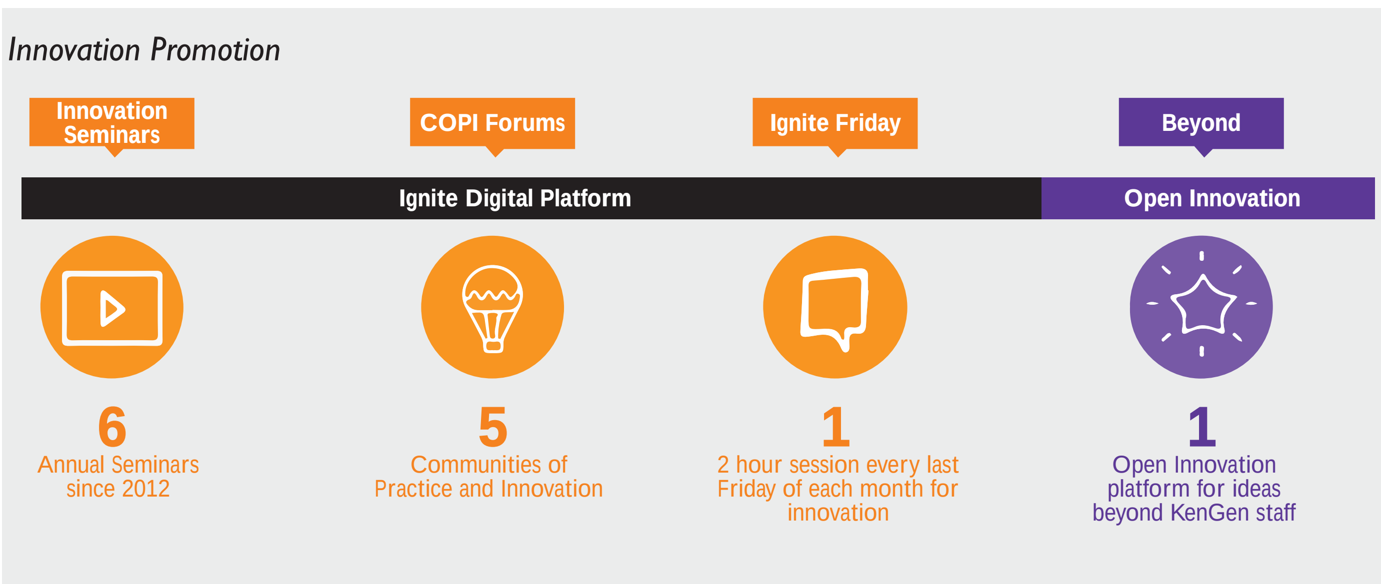
Institutionalizing an innovation culture is the foundation of competitive sustainability. This culture becomes the spring board for success. Innovation and success are directly co-related. The Company has set a solid value creation foundation by main-streaming innovation as a core function of the organization. All staff have formal structured capacity to re-invent, re-imagine and continuously improve what they do. The following initiatives were implemented to institutionalize an innovation culture.

1.1. The 6th Annual G2G Innovation Seminar was re-casted to take a Global perspective. Thirteen (13) International organizations participated in the Seminar. The Annual Innovation Seminar has provided an international forum to showcase our unique solutions. During the year, we submitted four innovation papers to the African Public Service Awards, a continental platform that recognises innovations in enhancing service delivery within public institutions. It is in this platform that KenGen won a runner's up prize in *"Rethinking Innovation in Manufacturing"* Kenyan chapter.

1.2. The Company launched a digital innovation platform – *Ignite* - at the 2018 G2G Seminar. This platform enables employees to share ideas at the comfort of their offices or homes into a system designed to facilitate speedy execution. Decision makers too have an on-demand reporting capability to aid the unlocking of bottlenecks in the execution process. Over 738 ideas have already been uploaded for implementation.

Turning Ideas into value

KenGen is expanding its business portfolio by investing in non- power generation projects and several projects are in different stages of implementation as outlined.



Economic Sustainability

WHERE WE ARE SINCE 2012

01

Innovation Implementation

KenGen is expanding its business portfolio by investing in non- power generation projects and several projects are in different stages of implementation.

Concepts 738

Innovation Proposals 251

Approved Innovations 143

Implemented Innovations 34

Innovation Value Realized 2.6bn

Promoting Innovation

From 2012 to 2018, a total of 738 idea concepts wer submitted by staff to the Company. 34 of these ideas have so far been implemented and brought in Kshs 2.6 billion in additional revenue.

The Company is developing a digital open innovation platform “Beyond” to receive innovative ideas from the public.

This platform will enable the Company go beyond its internal resources to tap into value creation ideas.

Intellectual Property Protection

Trademarks	*12*
Copyrights	*10*
Patent Applications	*34*

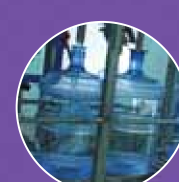
02 Innovation in Action

Value we are creating for our Stakeholders

Drilling & Consultancy Services

The Company has over the years offered geothermal drilling and consultancy services.

Gitaru Water



Gitaru Drinking Water Plant was commissioned last year. Work is underway to brand and market the water for commercial sale.

Olkaria SPA

Olkaria Spa was commissioned in 2014 and has so far served 600,000 visitors. The SPA services are being revamped to accomodate the growing demand.

Economic Sustainability

KenGen Industrial Park

KenGen has completed a feasibility study to set up an Industrial Park at its geothermal power generation hub at Olkaria. The Park will create a competitive business environment for manufacturing and service sectors through provision of competitively priced electricity, geothermal steam, heat and water.

The industrial park shall provide new revenue sources for KenGen through direct sale of electricity, steam and brine. This will boost the local economy and reduce the cost of living in Kenya. Application for designation of the KenGen Industrial Park as a Special Economic Zone is being pursued to ensure that the investors benefit from incentives as provided for in the SEZ Act of 2015.

Civil Engineering Materials Testing Laboratory

KenGen has completed developing a civil engineering material testing laboratory in Olkaria. The facility will be accredited and leased to an independent operator to offer testing services for ongoing projects nationally. Revenue shall be realised through lease of the facility under an agreed term sheet, which will take into consideration the prevailing testing rates by the Ministry of Infrastructure and Materials Testing department.


Olkaria II Geothermal Plant

Social Sustainability

Social Investment

KenGen believes in making a difference in areas in which it operates and continues to implement a comprehensive corporate social investment program, with a view to improving living standards and empowering communities to take charge of their destinies. Key areas of focus are education, infrastructure development, economic empowerment, water & sanitation and environment. The Company also supports initiatives that promote sporting talent, peace, inclusion and cultural preservation.

Education

The Company operates in some of the remotest parts of the country, where schools are not only far between, but ill-equipped to provide quality education. During the year, KenGen supported access to education by children from disadvantaged backgrounds by providing scholarships, developing school infrastructure and providing learning equipment. Schools at the Seven Forks, Olkaria, Turkwel, Sondu Miriu and Upper Tana were supported to build classrooms and acquire equipment, with a view to creating a conducive environment for learning and giving children a good start in life.

From sponsoring the initial group of 14 students in 2005, the KenGen Education Scholarships today has benefited over 700 secondary and university students.

The secondary school scholarships target top KCPE performing pupils, while the university scholarships target top KCSE performers, all from needy backgrounds. The university students are offered internship and employment opportunities at KenGen upon graduation with honours in the relevant disciplines. The Company is in the process of absorbing four beneficiaries who graduated with honours in 2017 in the relevant subjects, as stipulated in the Company's policy.

Currently, the Company is supporting 97 university students and 95 secondary students, with 8 beneficiaries being sponsored by contributions from the KenGen Employee Giver Initiative and six from our project partner, Bamburi Cement Ltd.

In addition, the Company offers stipends for university students under the program.

KenGen held its fifth Annual Mentorship in April this year for 186 Education Scholarships beneficiaries. The beneficiaries were counselled on their academic performance and career guidance through practical and motivational exercises within an environment that encourages peer relationships, networking, and exchange of ideas and experiences.

Schools that benefited from school infrastructure development include Apoko Mixed Secondary School in Nyanza Region, Gachabari Secondary School in Eastern Kenya, Turkwel Gorge, Lonyangalem and Olasiti Primary schools in the Rift Valley. The Company also extended support to the Alliance High School Old Boys' Club golf tournament to raise money to pay fees for needy students and expand school infrastructure. Similarly, KenGen supported a school feeding program in the semi-arid Turkwel with a view to keeping more than 2,000 children in school.

Mirira Primary School and Kiambaa Primary School in Murang'a County also benefited from upgraded classrooms, landscaping, new desks, and a refurbished water tank following the implementation of the CDM projects at Tana Power Station.

Rehabilitation of Kiambaa Primary School

This was the result of a recent redevelopment of Tana which brought additional renewable energy capacity to offset the use of fossil fuels, thereby reducing the emission of greenhouse gases.

The interventions at the two schools were necessitated by the poor infrastructures and sanitation facilities at the institutions, leading to unfavourable learning environment and consequently poor examinations performances. Kiambaa Primary School, with a total of 9 classrooms, had un-plastered walls and floors, and lacked window shutters, exposing the approximately 260 pupils to cold, rain and wind. Its blackboards were worn out and the desks were broken and unevenly finished, leading to injuries from splinters and falls. In addition, the lack of a veranda corridor outside each block left pupils exposed during the rainy seasons.

The renovation of Mirira Primary School included cementing of all classrooms floors to create a conducive learning environment, and the refurbishment of their water tank and rainwater collection gutters to ensure the sustainable availability of water throughout the year. The establishment of a woodlot will boost the school feeding program with cheap alternative source of wood fuel.

In addition, KenGen supported initiatives aimed at helping students to achieve their potential through mentoring and school tours to expose students to power generation activities and inspire them to make meaningful contribution to the society.

Social Sustainability

Infrastructure

Infrastructure, especially roads, plays a critical role in opening up and enabling inaccessible areas to participate in the national economy. KenGen continues to enable communities to access essential services and markets for their produce by building and maintaining roads. The Company has rehabilitated roads in Turkwel, Olkaria, Sondu Miriu and the Seven Forks.

At the same time, the Company's presence has enabled the areas to access electric energy, which has led to the diversification of sources of income through the establishment of small businesses like barber shops and hair salons. Access to electric energy has also improved access to health services as local health centres can now undertake power-dependent medical tests and administer vaccines that require refrigeration.

Economic Empowerment

KenGen plays a critical role in enabling communities to improve their living standards by providing jobs and economic opportunities. In Olkaria alone, where the Company is putting up a 165.4MW geothermal project, the Company provided 200 temporary jobs to the residents. In all areas of operations, the Company gives priority to local communities in the provision of non-specialized services like security, cleaning and supply of materials.

Construction of Olkaria V steam pipes

Water & Sanitation

Access to water continues to be a major challenge to many communities, especially those in the semi-arid areas where water-borne diseases are endemic. In fact, in some parts of the country, water is increasingly becoming a source of conflict.

The Company, with installations in semi-arid areas, is focusing on enabling the communities to access water by building sand dams and providing piped water as well as raising awareness on hygiene. During the year, the Company commissioned the Ngurunga dam to alleviate water shortage faced by 500 residents in Mbeere, Embu County. The Company also continued to support the provision of water to thousands of people in the Seven Forks region, Sondu Miriu, Turkwel and Olkaria by erecting and maintaining water points outside its installations. The Company's water projects benefit about 43,000 people who live near its installations.

Innovation / Capacity Development

Innovation is the bedrock of development and KenGen continues to work with universities and other institutions of higher learning to promote and embed an innovation culture among students as way of preparing them for the market. The Company supported the Technical University of Kenya's seminar on Innovation and Entrepreneurship and Strathmore University's research and innovation conference, which brought together universities, government agencies and industries to showcase their research and promote collaborative research.

Oil deposits have been discovered in the country's Rift Valley region and exploration has already begun in Turkana County.

During the year, KenGen contributed to the development of the country's nascent oil and gas industry by sponsoring a conference in Naivasha to build capacities for the exploration of extractives in East Africa


Promoting innovation during G2G Technical Seminar

Internship & Industrial Attachment

Partnering with academia for research and capacity development is a pillar in our talent recruitment. During the year, we enhanced our collaboration with universities and colleges, enabling 1,239 students to acquire skills and experience in various disciplines. There was an increase of 104.08% of internship beneficiaries (students who have completed university education) who have a six-month development process as well as 4.02% increase in two-month industrial attachment (students who are still in campus). This demonstrates our commitment in developing talent at the university and college level in preparation for the job market. The increase in these two programs affirms our support for the Government's goal to prepare the youth for economic development.

Program	2017	2018	Variance
Internship Beneficiaries	49	100	104.08%
Industrial Attachments	1,095	1,139	4.02%
Total	**1,144**	**1,239**	**8.30%**

Healthcare

Healthcare remains elusive to many rural communities. Indeed, Kenyans are also beginning to bear the brunt of diseases like cancer which require intensive, specialized care. In Mt. Kenya Region, KenGen is partnering with the Nyeri Hospice to alleviate the suffering of people with terminal diseases. Every year, KenGen partners with the Nyeri Hospice to provide palliative care to terminally ill patients by sponsoring a charity golf tournament. The Company also enables Kenyans to access health care by sponsoring various events, including the Mater Heart Run, Coast Hospice Charity Golf Tournament, Diabetes Walk, and the Relay for Life (Cancer Walk).

Inclusion

In addition to implementing an inclusion policy, KenGen also supports various initiatives that ensure mainstreaming of various groups in different parts of the society. During the year, the Company continued to provide opportunities to disadvantaged communities through education, provision of infrastructure and economic opportunities. The Company also sponsored initiatives focusing on women, including the National Diversity & Inclusion Awards, the Association of Women Accountants of Kenya, Women in Manufacturing Gala Dinner and the second Women in Energy Conference and Awards.

The Company also supported the Lake Naivasha Half Marathon, a forum for creating awareness about persons with disability and raising funds for the completion of an inclusive career development centre at Kongoni to help them to exploit their talents as a means to livelihood.

KenGen also helped to put up a perimeter wall at Dr. Ribeiro Parklands Primary School to guarantee the safety of pupils,118 of whom have cerebral palsy.

Social Sustainability

Environmental Conservation

Chairman plants a tree during the GIC launch

Environmental conservation remains a key focus in the Company's corporate social investment and receives enormous attention. During the year, KenGen worked with communities in its operational areas to raise awareness of environmental conservation and promote planting of trees to minimize the impact of climate change as well as expand livelihood opportunities through the growing of fast-maturing, commercial trees. The Company, working with stakeholders' coordination committees, also raised awareness on sustainable use of resources, including sand harvesting at the Seven Forks. In addition, the Company provided thousands of seedlings to communities living near its installations as part of the tree-planting effort

During the year, a total of 377,025 seedlings were issued for planting in various KenGen operational areas, surpassing a government of Kenya target of 80,000 seedlings. Over 700 tree seedlings were planted by KenGen staff at Olkaria as part of well-pad enrichment.

At the same time, a program for conserving five hectares in Ngong Hills Forest, 15 acres in Kamburu, 5 acres in Tana and 10 acres in Kindaruma has been initiated and is expected to continue during the next financial year. This will contribute to the 10% National forest cover target, and control siltation at the Seven- Forks cascade, thereby ensuring sustainable hydro power generation for national development.

The Company is also in the process of strengthening conservation through partnerships with agencies like the Nature Conservancy. In addition, the preparation of KenGen/Water Resource Management Authority (WARMA) joint conservation program in hydro dam catchment areas begun and is expected to further curb siltation.

At the same time, the Company's flagship environment project is the Schools Green Initiative Challenge (GIC) project, now running its third phase and implemented in partnership with Better Globe Forestry and Bamburi Cement Ltd.

Leveraging on the presence of schools around the Company's power stations, the GIC is structured as an afforestation competition, with the institution recording the highest number of tree survivals being awarded several prizes including an educational trip, infrastructure development, and scholarships.

The ten-year project currently has 400 schools competing from the semi-arid counties of Embu, Kitui and Machakos in greening more than 460 acres with wood fuel and fruit trees, with additional institutions set to join in subsequent years.

The GIC involves the planting and nurturing of multi-purpose Sennasiamea (Muveshi) and Melia volkensii (Mukau) tree seedlings for their 0.5-acre school plots. All schools receive an initial 300 tree seedlings.

Since inception in 2015 through a two-year pilot project, the GIC has so far distributed over 80,000 seedlings through phase II and phase III of the tree-planting competition.

Sports

Tee time

Globally, sport is turning into a big industry and KenGen is playing a key role in helping Kenyans to develop and utilize their talents. During the year, the Company sponsored, among other events, the Embu Sevens Rugby Tournament, the only one of its kind in the Mount Kenya Region, aimed at promoting grassroots rugby as well as inspire talented youth to take up rugby as a sport.

Disaster Response

During the year, the country experienced a number of disasters, both natural and manmade. KenGen joined hands with the government and other institutions to alleviate the suffering occasioned by the calamities. Among disaster relief efforts supported by the Company are famine relief in Garissa and Tana River counties, where thousands of people were displaced due to heavy rains experienced in the second half of the financial year.

KenGen offering famine relief in Tana River County

The Company also provided relief food to drought affected schools in Turkwel and provided support to Moi Nairobi Girls High School where some students died in a dormitory fire and school property was destroyed.

Other Forms of Support

The Company supported cultural and tourism initiatives, including the Lamu Cultural Week, Kenya Tourism Week and Kenya Energy Awards aimed at promoting energy efficiency.

The Future

KenGen shall continue to collaborate with communities with a view to making a positive impact in areas in which it operates. Through the KenGen Foundation, now in its 5th year, the Company aims to raise funds from donors and partners to scale up its Corporate Social Investment programs for greater reach and impact. The Foundation has signed a memorandum of understanding with Tullow Oil to initiate an afforestation project under the Green Initiative Challenge in West Pokot and Turkana counties. The project will involve 14 schools from each county and will kick off in January 2019.

Talent Management

Our People

The Company's strategy has twin themes; from a Good Company to a Great Company and more importantly from one generation to the next. Our people are the drivers of greatness and sustainability. They are the foundation on which the Company's success is anchored. Our improved operational performance in 2018 is a testament to our people's technical capability and a strong work ethic.

The Company continues to invest in ensuring employees have a conducive environment to innovate and bring out their very best. Indeed, during the year, we were voted as the best employer in Kenya's public sector according to a survey conducted in 2017 by Brighter Monday Ltd.

Social Sustainability

This feedback from stakeholders affirmed the effectiveness of several of our employees' engagement programs that had been implmented to create a good environment for employees and stimulate productivity.

Our human capital readiness begins with attracting talent, building capacities, providing platforms to express talents, growing leaders and retaining the best through performance reward and recognition.

Our People Bring Out the Best

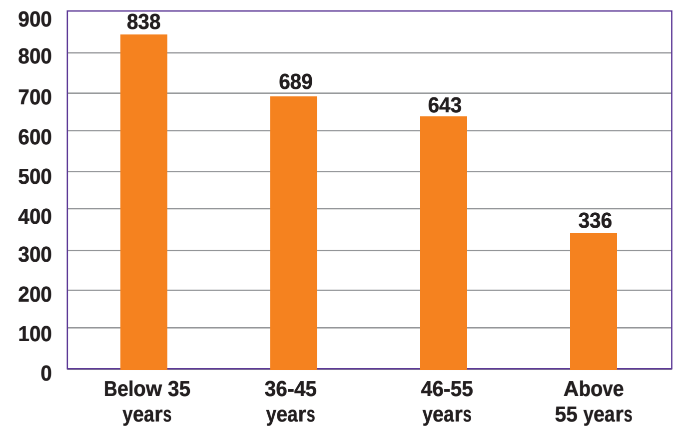
Our favourable work environment plays an increasingly important role in our ability to attract and retain talent. Our rich generation mix, agile leadership, freedom to innovate, staff involvement in decision making and people development programs make KenGen an attractive employer.

Employees Complement

Terms of Service	2017	2018
Management	1,413	1,485
Union	1,063	1,023
Total	**2,476**	**2,508**

Gender Distribution

Age Distribution



Upscaling Organizational Capabilities

In tandem with our theme of building capabilities and leadership, we continuously develop our people leadership and functional capabilities, focusing on internal training using our experienced employees. Due to the unique nature of our geothermal skills mix, we partner with both local and international learning institutions to train our employees.

Performance Accountability Framework

We continue establishing a strong link between corporate and employee performance by translating high level strategy to lower level objectives and measures through the cascading process. Bi-annual Performance dialogues ensures target setting, monitoring and evaluation. Teams set weekly targets during performance board accountability sessions, where they review previous week deliverables and allocate tasks and resources for the coming week.

Industrial Relations

We continue to enjoy cordial industrial relations with workers through their umbrella body "KETAWU". During the year, the Company signed a 4-year collective bargaining agreement that stipulated improved terms and conditions of service for unionisable employees, in line with applicable laws and emerging global trends.

We share with our partners, industry best practices to sustain conducive and harmonious work environment.

Employee Engagement

Having engaged employees is critical in achieving KenGen strategic goals. We endeavour to create a conducive work environment, where each of our employees feel passionate about their work, are always committed to the Company and bring out their best.

During the year, we implemented the following employees' engagement activities that are clearly aligned with our overall business strategy and our unifying theme of bringing out the best and being present in engagement with internal stakeholders:

(i) MDs Employee Engagement Forums

(a) Staff Clinics: Our MD &CEO, in furtherance of her people agenda, sets aside a special day when she stops all her normal activities to attend to employees' issues. Any employee with any idea, feedback, suggestion, complaint, compliment or innovation that in their view requires personal attention of MD &CEO, is requested to write to her directly. This is a unique opportunity that provides employees with a direct channel to interact with her, albeit by mail, in a direct and personal way. She endeavours to address all the issues raised by employees.

(b) Town hall Meetings: The MD & CEO, in cognizance of our unifying theme of being present in engagement with internal stakeholders, visits employees at their work places at the shop-floor for a one on one conversation on what can propel the organization to succeed, work challenges and possible solutions. It is a forum for sharing Company updates and has elicited a lot of excitement among employees, resulting in increased productivity.

(ii) Team Buildings

Our teams work in diverse geographical areas, with members of the same project and sometimes not in direct contact with each other. To synergize and align the team towards common goals, we organized several team building sessions for all departments and divisions. In these sessions, employees shared work related successes, issues and challenges. There were popular *"fungua roho"* moments where employees shared emotional issues affecting their productivity. All our team building sessions are anchored on our core value of *"Team Spirit"* and Theme of *"Bring out the Best"*.

KenGen employees in a team building session

(iii) Knowledge sharing platforms

We encourage our employees to share essential experiences, ideas and best practices using different media. Through these platforms, workplace topical and cultural issues that were rarely discussed have been tackled, resulting into a desired corporate culture paradigm shift. These media are;

a) KenGen Weekly Newsletters - an in-house magazine featuring news coverage from Company operating areas together with articles on work related issues.

Social Sustainability

b) *Communities of Practice & Innovation (COPI)* forums are decentralized innovation and knowledge sharing forums at the business area level where staff meet on a quarterly basis. The agenda includes discussions and brainstorming of work-related experiences, insights and innovative ideas. COPI forums are held in all the six business areas of the organization.

c) *G2G Global Annual Seminars* – The Good-to-Great (G2G) Global Innovation Seminar is an annual corporate seminar that provides a platform for employees, partners and potential partners of the organization to showcase innovative solutions geared towards creating sustainable value for the Company as well as solutions that maintain the Company's competitive edge. To date, over 3,000 delegates have attended the seminar and contributed over 738 innovation ideas.

Staff attending the 2018 G2G Innovation Seminar

Reviewing the G2G program

d) *"Ignite" KenGen's Digital Innovation Platform*, gives staff the chance to participate in future developments at KenGen by submission of ideas, and participating in the implementation of ideas online. Individuals/teams that implement their ideas are rewarded and recognized.

e) *Ignite Friday* – Ignite Friday is a 2-hour innovation challenge breakout session every last Friday of the month. During Ignite Friday, sectional teams breakout of their normal day to day work to discuss a specific innovation challenge. Teams are encouraged to come up with ideas that they can implement within their sections using the available resources.

This bottom-up approach allows great ideas to bubble up. It is a fun, participatory and open way of sharing ideas and out of the box discussions on how to bring out the best in our people. Everyone has the chance to contribute their ideas towards the innovation challenge set out every month.

During the year, KenGen vision, mission, core values and our unifying theme of build, be present and bring out the best were sung and recorded by our own employees. In some occasions, short plays and poems were orchestrated to provide powerful and transformative experience.

Social Sustainability

Employee Engagement Activities 2018

Y- Gen Forum

The Company is committed to inculcating a high-performance culture that recognizes the importance of involving youthful employees aged below 35 years in driving the strategy towards a prosperous future. Y-Gen is a new program to mentor the young employees so that they can realize their potential and aspirations. The aim is to make sure there is no generation gap, as the young are encouraged to learn from experienced employees.

838

The number of Y-Gen employees

KenGen rolled out Pink Energy, a development program which provides female employees with an avenue for empowerment and participation in major committees, projects implementation, innovation and other forums. The KenGen Pink Energy initiative seamlessly fits into our sustainable development goals on inclusion and equality. The forum has provided opportunities for female employees and empowered them to perform better in their respective roles. The following continued to be Pink Energy focus areas for the year:

(a) Personal development empowerment

(b) Condusive work place environment

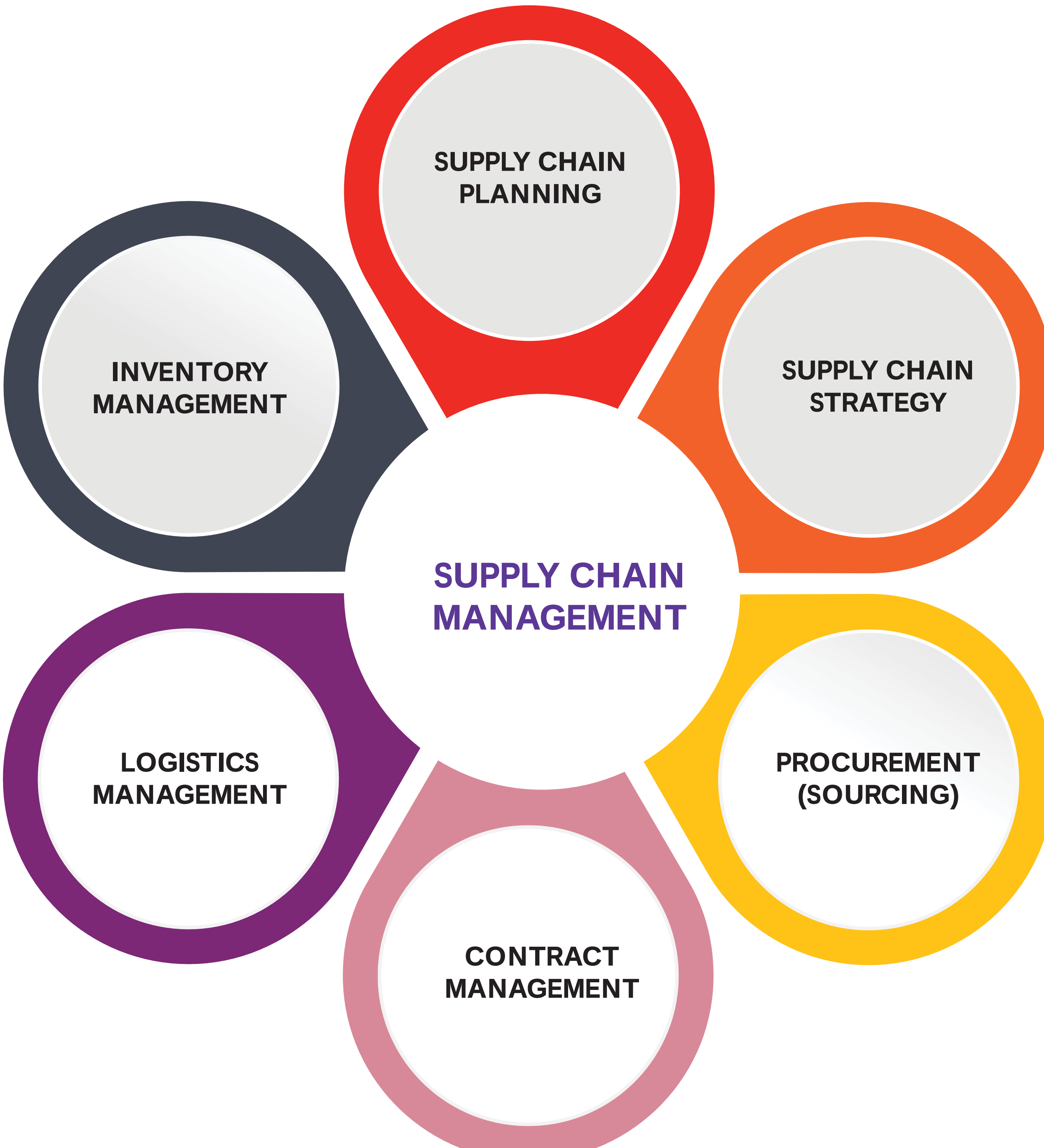
(c) Gender awareness

A Pink-Energy event at the Central Office

Product Responsibility - The Supply Value Chain

The main objective for supply function is to improve processes, increase wealth creation and deliver shareholder value for sustained economic development. Supply Chain plays a pivotal role in timely procurement of quality goods, works and services. The procurement process is guided by the Public Procurement and Assets Disposal Act 2015, relevant regulations, company procedures and best industry practices. Supply Chain is a strategic function in the Company to achieve best returns on key initiatives like cost reduction and enhanced plant availabilities.

Social Sustainability



The Supply Chain strategic activities target procurement planning, tendering process, contract management, logistics, inventory & asset management, disposal and stakeholder relations management.

Value for Our Money

The organization maximizes return on money spent through the procurement of goods, works and services throughout the entire chain. Value addition has been enhanced in the following aspects;

Procurement Planning

The Company prepares Procurement plans on an annual basis, which guide all procurements as per approved budgets. The Procurement plan is approved by the Board of Directors and executed by management to support Company strategic objectives. The plans are implemented in accordance with the Public Procurement and Asset Disposal Act, 2015, ensuring all requirements (among them, reservations for special groups to access public procurement opportunities) are met.

Framework Agreements

The need to improve plant availabilities and ensure steady power generation from our units has led KenGen to embrace long-term partnerships with Original Equipment Manufacturers (OEMs). Framework agreements entered entered into with OEMs guarantee steady supply of spares required for scheduled maintenance of the plants. This strategy has drastically reduced the lead time for acquisition of spares, reduced administrative time and cost of procurements. Our generating plants are maintained as per approved schedules, thus maximizing output for best shareholder returns. In the year, we signed five (5) agreements with OEMs.

Olkaria steam pipes

Social Sustainability

Buy Kenya Build Kenya

Our Company provides growth and development avenues through procurement of goods, works and services from citizens. This has continued to create wealth sustainably. The following approaches were used in the previous year under this initiative: -

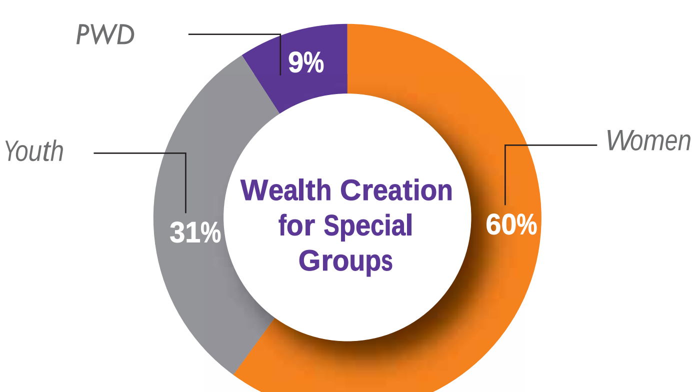
a) Creating Value for Special Groups

The Public Procurement and Asset Disposal Act, 2015 provides for public procuring entities to set aside a reservation of procurement opportunities for Youth, Women and Persons living with Disabilities (YWPD). In the year, we awarded these special groups procurement contracts equivalent to Kshs 1.2 billion. This was an increase of 73.14% compared to the previous year when Kshs 730million was awarded. Our focus in the target group is anchored on our strong belief that local firms support employment creation, create value for stakeholders and ensure sustainability.

Allocation to Special Groups

CATEGORY	2018 (Awards in Kshs Mn)	2017 (Awards in Kshs Mn)
Women	756,892	379,907
Youth	389,881	328,765
PWD	118,215	21,918
Total	**1,264,998**	**730,590**

The allocation increased by Kshs 534,398,000 from the previous year, representing a growth rate of 73.14%.



We achieved a total of Kshs1.20 billion against the negotiated target of Kshs1.30 billion, translating to a 94% uptake. The improved uptake was achieved after implementing the following initiatives: -

- Sensitization and awareness programs to these groups to take advantage of the scheme.
- Roll out of Supplier Relationship Management System (SRM)
- Effective planning and monitoring of the implementing teams

Youth, women and PWD during a KenGen suppliers sensitization and awareness session in Nairobi.

b) Empowering Local Firms

The 40% local content requirement in international tendering process has enabled local firms obtain a portion of money spent on procurement through joint ventures and other partnerships. Promotion of Local Content in procurement (Buy Kenya, Build Kenya) initiatives continued to be supported whereby 40% of the Company's non-specialized procurement budget, based on internally generated funds, is spent on local products and services supplied by citizen contractors. During the year, procurement of locally produced goods and services awarded to citizen contractors was Kshs 5,110.7 million. This supports growth of the local industry for sustainable development for stakeholders.

Process Improvement

Our supply chain processes require continuous improvement to address emerging challenges and comply with legal requirements. During the period, we implemented the Supplier Relationship Management (SRM) module under e-procurement platform to improve procurement efficiency. We held sensitization and awareness sessions with suppliers on the SRM usage and essential requirements for sustainable engagement with teams managing supply chain. The uptake of the system has been impressive, and we are now enjoying the benefits. We have delivered on the following strategic results;

a) Suppliers participate in tendering process online without physical delivery of tenders to tender box.

b) Online opening of tenders, where critical data for the bids are recorded in secure computerized system.

c) Enhanced security of procurement information from the tendering process to award of contracts.

d) Increased transparency and accountability of the tendering process

e) Ability to track procurement proceedings through a single integrated system.

Compliance to Statutory Requirements

The supply chain function is guided by the Public Procurement and Asset Disposal Act, 2015 and relevant regulations as established. All our procurements are processed with due compliance to all these statutory requirements and company procedures.

We submit statutory reports to the Public Procurement Regulatory Authority (PPRA), The National Treasury and Ministry of Energy. We complied and submitted the following reports;

a) Quarterly reports on all procurement contracts awarded for value above Kenya Shillings Five million.

b) Quarterly reports on procurement contracts awarded to the Special Groups

c) Direct Procurement contracts awarded for Value above Kenya Shillings Five Hundred Thousand

d) Procurement proceedings terminated before award.

e) Quarterly progress reports summarizing procurements allocated to target groups.

These reports demonstrate commitment to compliance requirements that enhances transparency, fairness and value for money for sustainable growth.

Sustainable Procurement

Our Procurement is anchored on the legal framework and best practices where the acquisition of goods, works and services embraces Total Cost of Ownership (TCO) approach. Our assets and other procurements are compliant to safety, health and environmental requirements for sustainable growth. These initiatives build a sustainable supply chain function for the future.

Social Sustainability

Enterprise Risk Management

KenGen remains committed to robust risk management practices as an integral part of good management. The Board, through its Audit, Risk & Compliance Committee, exercises an oversight role on the Enterprise Risk Management (ERM) processes implemented by Management. During the year under review, KenGen continued to embed a risk-awareness culture aimed at supporting strategic and operational objectives. Key corporate and emerging risks related to specific business objectives were assessed, evaluated and are closely monitored by the Board and Management.

Enterprise Risk Management (ERM) Framework

Our risk management framework, that is aligned to ISO 31000, allows us to identify, measure, manage and monitor strategic and operational risks across the business. The framework provides management with a clear line of sight over risk to enable informed decision making.

In order to support effective implementation of our ERM framework, we have adopted the three lines of defense model as illustrated below;

Three Lines of Defense Model

1st lines of defense	2nd lines of defense	3rd lines of defense
Primary Risk Owners: Report to management • Each Division owns the risks that face their operations • We have management and financial controls in place to mitigate the risks.	*Oversight function:* Report to CEO & Board Audit & Risk Committee • Risk Management • Legal and Compliance • Business Continuity • Safety and Quality Assurance	*Independent Assurance Providers:* Report to Board Audit & Risk Committee • Internal & External Auditors

Strategic Risk Management in KenGen

The objective of Strategic Risk Management is to ensure that management identifies, assesses and continuously monitors events that drive deliberation and action regarding uncertainties and untapped opportunities that affect an organization's strategic execution. It enables an integrated approach of strategic planning, risk management and strategy execution in managing risks and seizing opportunities.

KenGen
Energy for the nation.

Strategic Risks

KenGen's key strategic risks and mitigation measures are shown in the table below:

Key Risk Indicator Tolerance	
A	We don't believe KenGen can or should do more
B	We believe KenGen can or should do more
C	We are not sufficiently prepared and immediate action is required

Strategic Risks & Mitigations

	Risk	Risk Rating	Mitigation Strategies
1.	**Single Buyer Model** KenGen currently sells its generated electric energy to a single off-taker, Kenya Power. This comes with the attendant risk of late or delayed payment for electricity sales which could have adverse effects on the KenGen's cash flow and revenues.	High	KenGen deploys a robust debt management program for increased collection of overdue amounts as well as enhanced collaboration with other stakeholders to ensure the enactment of the Energy Bill into law. This will allow entry of more players in the wholesale and retail of electricity, thus giving KenGen an option to sell bulk energy to multiple customers. We are also diversifying to other revenue generation modes e.g. the Industrial Park in Naivasha.
2.	**Resource Sustainability** Unfavourable hydrological conditions and changes in geological formation underneath the earth's surface could adversely affect the generating capacity of the Company.	High	KenGen continues to engage and collaborate with stakeholders for afforestation and the establishment of a hydro-risk mitigation fund. We are also putting in place an effective steam reservoir management system that ensures close monitoring and supervision of the steam pressures in the geothermal reservoir.
3.	**Power Evacuation from Generation Sites** This applies to the uncompleted projects by KETRACO directly linking to KenGen's upcoming projects, therefore affecting the evacuation of power from generation sites.	High	KenGen is collaborating with KETRACO and other key stakeholders to ensure an effective integrated plan for new plants and transmission lines.
4.	**Access to Capital Financing** KenGen needs substantial capital to finance its business plan and, in particular, the capacity expansion projects.	Medium	KenGen continues to explore new financing approaches and new structures to execute and finance projects such as Public Private Partnerships (PPPs) and Special Purpose Vehicles (SPVs) to manage the financing of new projects.

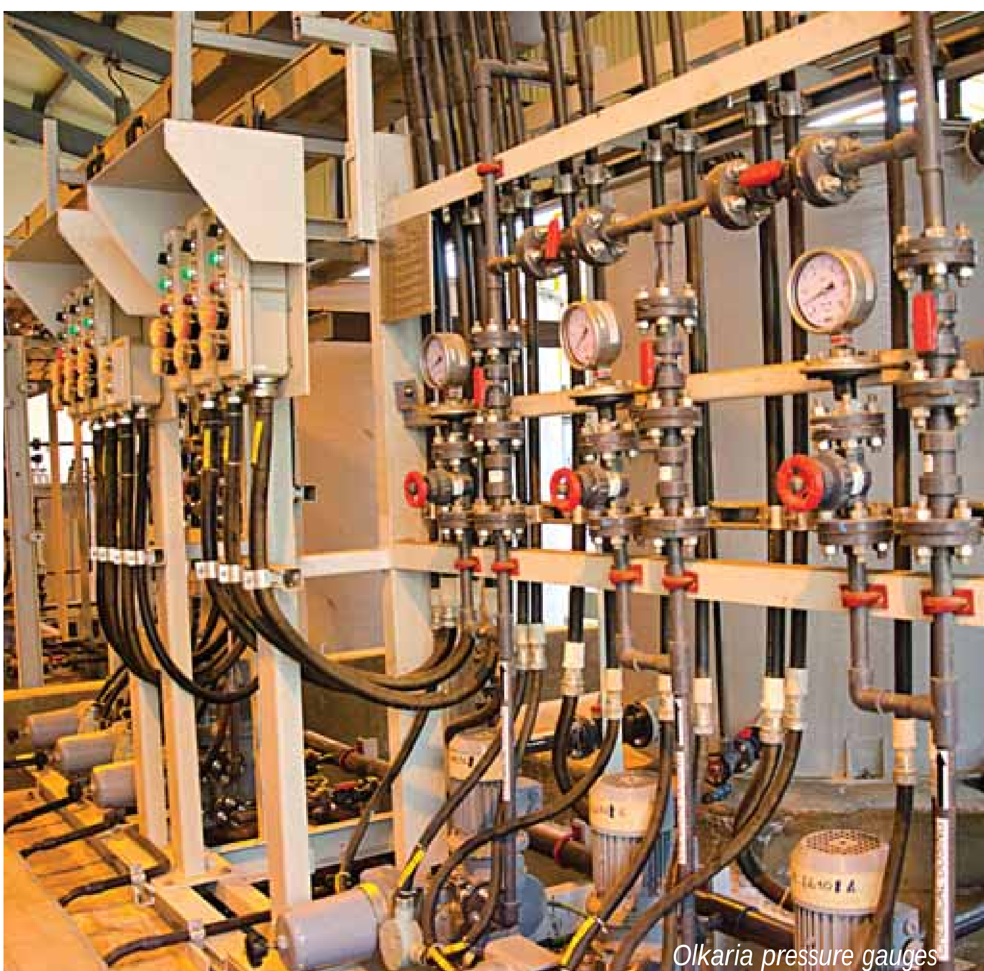
Social Sustainability

Strategic Risks & Mitigation (continued)

	Risk	Risk Rating	Mitigation Strategies
5.	**Changes in the Legal and Regulatory Environment** Changes in laws and regulations could expose KenGen to risks that could result to increased operating costs, ultimately compromising on our profitability.	Medium	KenGen continues to pro-actively engage with the relevant national and county government arms, building constructive relationships with the relevant regulators and participating in discussions on emerging legislation and regulations.
6.	**Market Disruptions** KenGen face increased competition from a variety of new players in the market.	Medium	KenGen is exploiting geothermal resources within Olkaria and other potential sites as well as capacity expansion programmes for renewable energy resources such as wind and solar. We are also seeking public private partnerships to create new business models and growth opportunities.
7.	**Reputational Risk** KenGen is a market leader in the power generation industry and negative publicity could have adverse effects which may lead to a decline in the market share price and failure to attract investors to finance our projects.	Medium	KenGen undertakes frequent environmental scanning of any inherent reputational risk so that potential adverse communication is addressed with relevant stakeholders through a sound communication engagement strategy.
8.	**Social and Community Risk** KenGen's plants and stations are located in close proximity to communities. As a result, projects may be stopped or delayed and plants rendered inoperable due to community agitation.	Medium	KenGen continues to be involved in Corporate Social Investment (CSI) activities through the KenGen CSI program and KenGen foundation. We have also enhanced collaboration with county governments, community stakeholders, implemented Resettlement Action Plans (RAP) as well as set up a Community Liaison Department.

Opportunities & Management Strategies

Opportunity		Management Strategies
Diversification of Revenue Streams There is need to explore various opportunities so as to diversify KenGen's revenue streams. KenGen has been relying on a single off taker in the sale of its generated electric energy. This poses a risk to the Company's cash flows due to delayed payments.	High	The Company is exploiting new revenue streams and is currently pursuing licences to undertake: • Bulk power sales to multiple commercial consumers through the development of the industrial park in Naivasha. • Commercial drilling for other stakeholders within the region. • New drilling sites to increase green energy through geothermal. • Consultancy and Contracting work to stakeholders.



Olkaria pressure gauges

Our risk management framework, that is aligned to ISO 31000, allows us to identify, measure, manage and monitor strategic and operational risks across the business. The framework provides management with a clear line of sight over risk to enable informed decision making.

Environmental Sustainability

SUSTAINABLE DEVELOPMENT GOALS

- The Company generated 7,987 Gwh in 2018, an increase of 6% from 2017, to power the growing economy.
- It also supports various CSI initiatives and improves living standards by encouraging local communities to plant tress for micro-economic based timber products.

- Provide cheap energy for irrigation to alleviate hunger through horticulture.
- Support national consumption on food storage programme and the processing agenda of GoK.
- Provide the much-needed electric power for food processing and preservation.

- Regular drugs and substance abuse education provided to employees, families & contractors.
- 23 health articles written and distributed to employees.
- 45 bar attendants in Mbeere sensitized on ADA & HIV and AIDS.
- Condom promotion & distrbution to employees and stakeholders 102,305.
- 22 voluntary Counseling & Testing centres.
- Medical Camps done through our Partners.

- Enabled 1,239 youths to acquire industry knowledge and experience in various fields, including power plant operations, geothermal exploration, corporate communications, ICT and engineering.
- Offer Education Scholarships.
- Employment of ECDE teachers & Caretakers by the Company.
- The Company provides text book and learning materials for the learners.
- Training of ECDE teachers and Caretakers on new curriculum and general awareness.
- Support Schools to raise funds to pay fees for needy students and expand school infrastructure.

The Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including those related to poverty, inequality, climate, environmental degradation, prosperity, and peace and justice.

5 GENDER EQUALITY

- Pink Energy forums to develop women's potential, mentorship of high school and university students, encouraging girls to take up technical courses like engineering.
- Equal absorption into the education scholarships and awarding.
- KenGen-sponsored leadership programs e.g. women in Leadership by Strathmore.
- Career development, health and wellness, financial empowerment, and mentorship.
- Collaboration with KenGen Foundation on sanitary pads donation to vulnerable girls in schools
- Initiation of Lactation rooms.

6 CLEAN WATER AND SANITATION

- 43,000 CSR water projects beneficiaries by sinking Boreholes near our installations, sand dams, water pans and water kiosks. e.g Kaewa Water Project at Hydros.
- Addressing water and sanitation challenges faced by communities neighbouring the power stations through the sustainable provision of clean accessible water as a major Corporate Social Investment activity.

7 AFFORDABLE AND CLEAN ENERGY

- Kenya's electricity demand has been on an upward trend, increasing from 1,044MW in 2008 to 1,802MW in 2018.
- 84% Energy from Green sources supporting 40 million Kenyans .
- Provision of power to schools to enable use of laptops and lighting for studies.

8 DECENT WORK AND ECONOMIC GROWTH

- Direct employment for scholarship beneficiaries.
- KenGen provides electricity to enable Kenyans to engage in meaningful economic activities.
- Plans to set up an Industrial Park at its geothermal power generation hub at Olkaria to boost local economy.
- Rehabilitated 200kms of the dilapidated Kivaa-Kiambere and Kaewa Masinga Roads.

Environmental Sustainability

SUSTAINABLE DEVELOPMENT GOALS

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

- The Company has developed a digital Innovation Platform "Ignite" where staff can share innovations.
- To date, 738 ideas have been submitted on Ignite.
- Support Entrepreneurship students in Technical University, Annual Exhibition Clubs showcasing students projects & innovations.
- Encourage students to be creative in order to prepare them for job markets.

10 REDUCED INEQUALITIES

- Equal absorption in the education scholarship and awarding.
- The Company supported the Lake Naivasha Half Marathon, a forum for creating awareness about persons with disability and raising funds for the completion of an inclusive career development center at Kongoni to help them to exploit their talents as a means to livelihood.

11 SUSTAINABLE CITIES AND COMMUNITIES

- Resettlement action plan (RAP) formulated as a framework for relocation of Project. Affected Persons (PAPs), in compliance with the World Bank involuntary resettlement policy (OP 4.01).
- 150 households resettled on 1700 acres piece of land adjacent to Olkaria IV project.
- Undertook resettlement of four villages in Olkaria in order to pave way for construction of the 165.4MW Olkaria I AU 4 & 5 and Olkaria IV geothermal projects.

13 CLIMATE ACTION

- Dedicated Environment and Clean Development Mechanism (CDM) program to spearhead environmental sustainability.
- Registered six (6) CDM projects under the United Nations Framework Convention on Climate Change (UNFCCC) and about to register 6 more projects in the next financial year.

14 LIFE BELOW WATER

- Treatment of waste water to a pH of between 6 to 9.0.
- Mangrove conservation - planted 600 seedlings of mangrove.
- Controlled fishing in the hydro dams.
- Control of water abstraction and usage through water permits.
- Conservation of the riparian and buffer zone areas in hydrodams.
- Quarterly cleanup of Makupa shoreline.

15 LIFE ON LAND

- Conservation of breeding sites.
- Use of noise silencers at our Olkaria Power Plants.
- Colour coded steam pipes on the animal corridors at Geothermal Plants.
- A total of 377,025 seedlings were issued for planting in various KenGen operational areas, surpassing a government of Kenya target of 80,000 seedlings.
- Over 700 tree seedlings were planted by KenGen staff at Olkaria as part of well-pad enrichment.

16 PEACE AND JUSTICE STRONG INSTITUTIONS

- Peace building initiatives in conflict affected areas like Turkwel.
- Provided support to cultural and tourism initiatives, which include the Lamu Cultural Week.

17 PARTNERSHIPS FOR THE GOALS

- Partners with communities, NGOs and other institutions in the implementation of CSI programs, e.g the Schools' Green Initiative Challenge through KenGen Foundation
- KenGen is in the process of strengthening conservation through partnerships with agencies like the Nature Conservancy.
- In addition, the preparation of KenGen/Water Resource Management Authority (WARMA) joint conservation program in hydro dam catchment areas begun and is expected to further curb siltation.
- Through the KenGen Foundation, now in its 5th year, the Company aims to raise funds from donors and partners to scale up its CSI programs for greater reach and impact.

Environmental Sustainability

Clean-up exercise at Ngong Wind Power Station

Implementation of Clean Development Mechanism projects (CDM)

The Company has a dedicated Environment and Clean Development Mechanism (CDM) program to spearhead environmental sustainability. The CDM program to date has registered six (6) CDM projects under the United Nations Framework Convention on Climate Change (UNFCCC). These projects have offset an annual estimated certified emission reductions (CERs) of 1.5 million tonnes of CO2 equivalent per year as follows.

Project	MW	Estimated tCO_2 equiv/year
Olkaria II (Unit 3)	35	149,632
Tana	20	25,680
Kiambere (Additional Capacity)	20	41,204
Ngong	5.1	9,941
Olkaria I, AU 4&5	140	635,049
Olkaria IV	140	651,349
Total	**360.1**	**1,512,855**

The CDM projects have resulted in environmental and social benefits to KenGen and communities around the projects. This is through committment of 10% of the CDM Revenue to Community Benefits Programs from the World Bank's Emission Purchase Agreement for the Olkaria II, Tana and Kiambere CDM projects.

Going forward KenGen intends to enhance its portfolio of climate change mitigating projects by registering Six (6) other projects with the UNFCCC as CDM projects in the next financial year 2018/2019. These projects are;

i. 165.4MW Olkaria V

ii. 83.3MW Olkaria I Additional Unit 6

iii. 50.7MW Olkaria I Rehabilitation

iv. 42.5MW Seven Forks Solar Project

v. 80MW Meru Wind Plant

vi. 10MW Ngong Phase III Project

It is envisaged that the projects will abate between 100,000 to 600,000 carbon emission reductions per year, contributing to reduction of climate change impacts.

Carbon Markets

KenGen is exploring alternative markets for carbon credits, including the Derivatives Market at the Nairobi Securities Exchange (NSE) and the Voluntary Cancellation Platform (VCP) of the UNFCCC. Other consideration for our green projects includes initiatives like the Transformative Carbon Asset Facility (TCAF), which is being developed by the World Bank. Among the objectives of TCAF is to achieve lasting transformational impact, leveraging of public finance to enhance investment in low-carbon technologies and assist countries to implement market-based carbon pricing and sectoral mitigation measures.

Participation in National Climate Change Activities

KenGen participated in the ongoing development of the National Climate Change Action Plan – NCCAP (2018-2022) as part of a team within the Ministry of Energy. The NCCAP outlines the programmes and strategies for adaptation and mitigation from 1st July 2018 to 30th June 2022. The plan supports achievement of the Government's Big Four agenda and sustainable development goals. It also enhances the adaptive capacity and resilience of communities, with an emphasis on marginalised and minority groups; and outlines actions to be undertaken in as low-carbon manner as possible to ensure that Kenya achieves its Nationally Determined Contributions (NDC) under the UNFCCC Paris Agreement. Under the Energy & Transport priority pillar of the draft NCCAP 2018-2022, KenGen will contribute to increasing renewable energy for electricity generation that is climate resilient and accounts for needs of rural areas.

Environmental Sustainability

The draft NCCAP 2018-2022 expects KenGen, together with the National Treasury, Climate Change Directorate, NEMA, Council of Governors and the private sector, to participate in the design and implementation of market-based mechanisms; promote investor confidence; enhance Kenyan capacity to engage in carbon asset activities, strengthen the viability of domestic carbon asset production and increase access to international carbon markets.

Environmental and Social Impact Assessment (ESIA) Studies

The Company has developed an environmental sustainability policy and is certified in Environmental Management Systems (EMS). It has established environmental objectives, targets and continuously reviews its environmental management programs.

During the year, we conducted ESIA studies for the following projects:

Project	Location	Status
Olkaria V	Olkaria	• Variation of license validity duration issued. • Project construction in progress
Olkaria I AU 6	Olkaria	• Variation of license validity duration issued • Contracting in progress
Olkaria I Rehabilitation	Olkaria	• Variation of license validity duration issued (for additional 6MW) • Preparation of tender documents
Olkaria PPP project	Olkaria	• Preliminary ESIA conducted. • Feasibility study ongoing, including noise spread & air quality dispersion modelling
Ngong Phase III project	Ngong	• ESIA study in progress
Seven Forks Solar project	Kamburu	• Report under review by NEMA
Meru Wind project Phase I	Meru	• Bats and birds survey study conducted • Resettlement Policy Framework developed • ESIA and RAP studies awaiting finalization of land acquisition.

Implementation of Environmental Management Plans (EMPs) and EIA License Conditions

Pre-requisites of ESIA for award of license inform the design of the plant, in order to include necessary controls in the bidding documents.

Implementation of Environmental Management Plans at various KenGen business areas was as follows:

a) Statutory environmental audits were conducted on annual basis and reports submitted to NEMA. In the year 2017, the audits were conducted in Oct/Nov and the subsequent reports submitted.

b) KenGen participated in the environment health and safety (EHS) compliance and technical audits conducted by the Energy Regulatory Commission (ERC) at various KenGen power plants.

c) Monitoring of environmental aspects is a continuous exercise. Some of the aspects monitored include; air quality, noise levels, water quality analysis and quantity monitoring, trace element analysis at geothermal fields, waste oil (sludge) at thermal power station and auxiliary power consumption.

d) Waste generated is segregated, quantified and disposed of appropriately as per the requirements of Environmental Management & Coordination (Waste management) regulations, 2006.

e) Acquisition of emission licenses for our thermal power plants such as Kipevu I & Kipevu III.

f) Construction of a bunker at Turkwel for disposal of asbestos sheets from Western Region. There exists another bunker at Eastern Hydros.

g) Recommended corrective actions following the ERC EHS Technical audits and statutory environmental audits have been addressed.

h) Rehabilitation of degraded sites within our operations. In the year, approximately 8 acres of degraded/ cleared well sites were rehabilitated at Olkaria while 2 acres of land at Makupa shoreline in Mombasa were rehabilitated with 600 mangrove propagules.

i) Preparation of environmental performance reports and sharing with relevant stakeholder such as the financiers.

Stakeholders Management

a) KenGen's involvement in the development of ecosystem management plan for Hell's Gate and Mount Longonot National Parks for 2017-2027.

b) KenGen-KWS joint ecological assessment for the proposed well pads within/near Hell's Gate National Park in Olkaria business area.

c) KenGen participation in biodiversity monitoring at Hell's Gate National Park, in conjunction with Kenya Wildlife Service (KWS).

d) Community engagement strategy developed. Staff were sensitized on the same and their input incorporated. Development of KenGen Community Engagement Policy is at advanced stage.

e) Establishment and operationalization of Stakeholders Coordination Committee (SCC) for Olkaria V and Olkaria I AU 6.

The Olkaria IV Resettlement Action Plan (RAP) Implementation

In August 2014, KenGen undertook resettlement of four villages in Olkaria in order to pave way for construction of the 140MW Olkaria I AU 4 & 5 and Olkaria IV geothermal projects. A resettlement action plan (RAP) was formulated as the framework for the relocation of the Project Affected Persons (PAPs), in compliance with the World Bank involuntary resettlement policy (OP 4.01). A total of 150 households were resettled on 1,700 acres piece of land adjacent to Olkaria IV project. KenGen continues to work with the community on the infrastucture of the RAP Land.

GOK PERFORMANCE REPORT

KenGen
Energy for the nation.

Business Performance Report 2018

KenGen has signed a performance agreement with the Government of Kenya as a demonstration of its commitment to;

- Ensuring that public services are delivered in accordance with the constitution;
- Ensuring modernization of the public service by introduction of modern technologies and innovative service delivery;
- Ensuring that public officers demonstrate professionalism, transparency and accountability in performing their duties and that they show courtesy, integrity and neutrality in provision of service.

1. Finance Stewardship and Discipline

Absorption of Allocated Funds

During the financial year, KenGen absorbed and utilized Kshs 37 billion of released budget for both recurrent operations and capex in pursuit of projects such as Olkaria V, Olkaria IAU6, Olkaria I Rehab, Ngong III and Meru Wind.

Appropriations - in - Aid (A-in-A)

During the financial year, KenGen realized a total of Kshs 275 million against a target of Kshs 159.2 million from the Geothermal Spa, steam, insurance compensation and others.

Pending Bills

KenGen had no pending bills as of 30 June 2018, as they were paid within target.

Service Delivery

Implementation of Citizens' Service Delivery Charter

During the financial year, KenGen ensured that effective service was delivered to all the stakeholders as it continued executing its core mandate. Milestones include:

- The Company reviewed its service charter in line with values and principles of public service;
- The service charters have been displayed prominently at all points of entry / service delivery points in both English and Kiswahili in the prescribed size;
- KenGen employees have been sensitized through the intranet. KenGen will continue to ensure compliance to the commitments and standards in the charter through established feedback mechanisms and will maintain records on service delivery; and
- KenGen will customize charters to unique needs of the customers by end of quarter one of the next financial year by translating charters to braille where necessary.

Application of Service Delivery Innovations

During the year, KenGen continued to implement the following innovations:

- Brine power generation- feasibility report to be finalised;
- Production of drilling detergent- tender awarded and under contracting.

Resolution of Public Complaints

KenGen ensured prompt resolution of public complaints referred directly or channelled through the Commission on Administrative Justice (CAJ). In addition, the Company will:

- Strengthen the resolution handling capacity through staff sensitization forums;
- Conduct capacity building for complaints-handling officers;

- Create awareness through the intranet, company website and Stakeholders Coordination Forums; and
- Resolved all public complaints referred directly / indirectly from CAJ

2. Core Mandate

Priority Projects / Vision 2030 Flagship Projects

KenGen is undertaking four (4) Vision 2030 flagship projects with a total additional capacity of 472MW to be implemented by the year 2021, though no project will be commissioned in the reporting period. The Company drilled six wells with steam equivalent of 41.8MW within the contracting period.

Project Completion Rate

KenGen implemented generation capacity expansion projects to meet the forecasted power demand.

Pre-Tax Profit

The pre-tax profit was met.

Dividend to the National Treasury

The Board will declare any dividends approved at the end of the financial period following the Company's annual general meeting.

Return on Investment (ROI)

Return on investment for the financial year was 4.096% against a target of 3.725%. The Company exceeded the set target.

Capacity Utilization / Plant Availability

KenGen's plant availabilities are based on threshold targets. The average availabilities for the year were:

- 94.02% for hydro against the 82% PPA threshold;
- 96.91% for geothermal against the 85% PPA threshold;
- 99.90% for gas turbines against the 80% PPA threshold;
- 86.28% for thermal against the 80% PPA threshold.

Access to New Geothermal Fields

KenGen has a 2.5MW geothermal plant at Eburru and expects to be granted the concession license in the next financial year.

Resource Sustainability

KenGen supported and participated in resource sustainability management efforts through;

- Conservation of water towers, especially Mau forest where massive deforestation has taken place recently.
- Steam Sustainability: KenGen has embarked on an elaborate steam sustainability program that involves; extensive reservoir monitoring, modelling and enhanced power plant designs for more conservation and efficiency.

3. Access to Government Procurement Opportunities

Total procurement taken up by the target group was Kshs 1,265 million as compared to Kshs 730.59 million in the previous financial year. There has been an improvement in absorption, enhanced by sensitizing special groups on government procurement procedures, requirements for accessing government procurement opportunities and the specific opportunities in KenGen. A Supplier help desk was set up at the KenGen Headquarters to help suppliers with pertinent information.

4. Promotion of Local Content in Procurement *(Buy Kenya Build Kenya)*

KenGen continued to promote the Buy Kenya Build Kenya policy. Forty percent (40%) of the Company's non-specialized procurement budget, based on internally generated funds, was spent on local products and services. Total procurement captured for locally produced goods and services was Kshs 5,110.7 million awarded to local contractors.

5. Cross-Cutting Initiatives

Asset Management

Inventory Management – a catalogue of the assets and properties, including their status in terms of the working condition, is maintained with a total asset book value of Kshs 242 billion.

Youth Internship / Industrial Attachment / Apprenticeship

Within the financial year, the Company engaged 2,022 youths in internship / industrial attachments for skills transfer.

Competency Development

Various training programs were implemented to enhance employee skills and proficiencies to improve institutional performance. A significant number of staff attended various training programs.

- Data and Knowledge Management: Knowledge harvesting, preserving and sharing lessons learnt across the Company for continual improvement was effected through the annual innovation seminar held during the year.

Disability Mainstreaming

KenGen continued to implement Government policy on affirmative action for persons with disabilities (PWD).

- Maintained disaggregated data of 24 employees (19 male and 5 female) of persons with disabilities by age, gender and forms of disability;
- Ensured that progressively at least 5% of the new employees in the Company are persons with disabilities.
- Improved ease of access in KenGen offices and installations in line with the findings of the baseline survey.

Prevention of HIV/AIDS Infections

The Company implemented HIV and AIDS work-place and community-targeted programs with a view to fighting stigma, promoting access to treatment and preventing further infections.

Safety and Security Measures

During the year, the Company adhered to safety and security programs involving personnel, documents, information, equipment and assets. An elaborate safety and disaster preparedness mechanism, comprising Disaster Risk Management / Business Continuity Processes (DRM/BCP) plan and Implementation of the Information Security Management System (ISMS), is being put in place to address emergent safety and security risks.

National Cohesion and Values

KenGen promotes national cohesion, values and principles to create a cohesive and peaceful nation. To achieve this, KenGen implemented five (5) commitments and submitted an Annual Progress Report on the implementation and way forward as captured in the 2016 Annual President's Report on National Values and Principles of Governance.

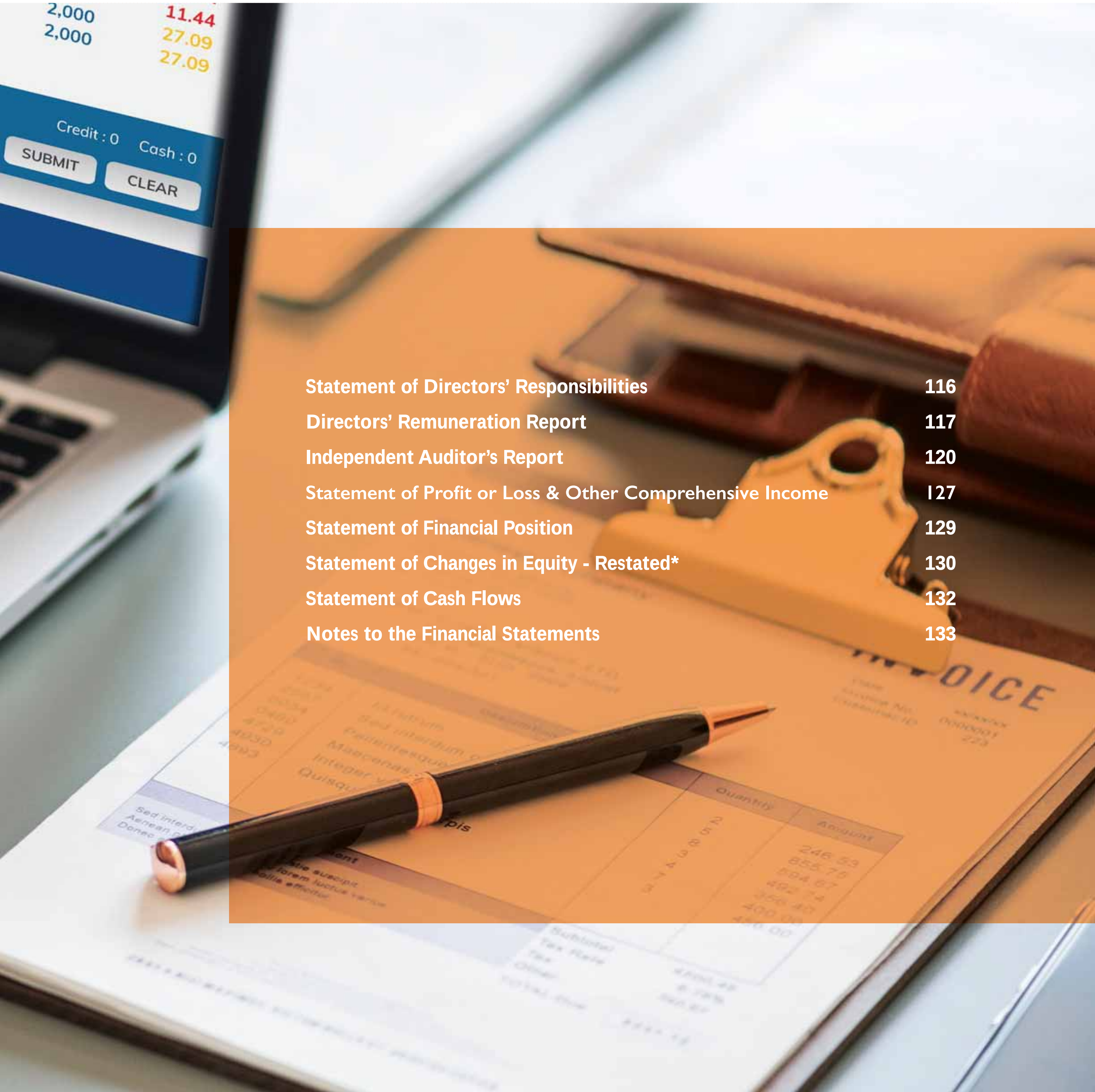
Corruption Prevention

The Company is committed to combat and prevent corruption, unethical practices and promote standards and best practices in governance in line with the Ethics and Anti-Corruption Commission Act No. 22 of 2011 and Leadership and Integrity Act of 2012. To achieve this, KenGen undertook the following measures: -

- Implementing recommendations emanating from the risk assessment index report has been done through Corruption Risk Assessment;
- Anonymous Reporting System to encourage and protect whistle blowing has been put in place;
- Quarterly reports to EACC, in the prescribed format, are regularly issued.


Side
Price
Volume
Matched
Balance
Cancelled
Status
Price :
Limit
Pin :
10:15:28
S
160.50
15.00
0
15.00
0
Queuing
10:16:09
S
270.00
5.00
0
5.00
0
Queuing

FINANCIALS


2,000
2,000
11.44
27.09
27.09
Credit : 0
Cash : 0
SUBMIT
CLEAR

Statement of Directors' Responsibilities

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company as at the end of the financial year and of its profit or loss and other comprehensive income for that year. The Directors are responsible for ensuring that the Company keeps proper accounting records that are sufficient to show and explain the transactions of the Company; disclose with reasonable accuracy at any time the financial position of the Company; and that enables them to prepare financial statements of the Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act 2015.They also accept responsibility for:

i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii. Selecting suitable accounting policies and then apply them consistently; and

iii. Making judgements and accounting estimates that are reasonable in the circumstances

In preparing the financial statements, the Directors have assessed the Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

The Directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the Board of Directors on 25 October 2018 and signed on its behalf by:

....	....	....
Joshua Choge	**Joseph Sitati**	**Rebecca Miano**
Chairman	*Director*	*Managing Director & CEO*

STATEMENT OF THE COMPANY SECRETARY

In accordance to section 125 of the Companies Act, I certify that the Company has lodged with the Registrar-General all such returns as are required of a public Company in terms of the Act and that all such are true, correct and up to date.

Paul Ndungi
Company Secretary,
Nairobi

25 October 2018

INFORMATION NOT SUBJECT TO AUDIT

The Company's Directors Remuneration Policy and Strategy

The Board establishes and approves formal and transparent remuneration policies to attract and retain both executive and non-executive Board members. These policies clearly stipulate remuneration elements such as Directors' fees, honorarium and attendance allowances that are competitive and in line with those of other agencies in the industry and with the State Corporations Act.

In accordance with the guidelines provided in the State Corporations Act and issued by the Salaries & Remuneration Commission as well as shareholder approval granted at the Annual General Meeting; the Directors are paid a taxable sitting allowance of Kshs 20,000 for every meeting attended. The Chairman is paid a monthly honorarium of Kshs 80,000.

Kenya Electricity Generating Company Plc does not grant personal loans, guarantees, share options or incentives to its Directors.

It is proposed that each non-executive Director receives a fee of Shs.600,000 excluding allowances and honorarium for the financial year ended 30 June 2018 subject to approval by shareholders during the Annual General Meeting.

Contract of service

In accordance with the Capital Markets Authority (CMA) regulations on non-executive Directors, a third of the Board is elected at every Annual General Meeting by the shareholders for a term of 3 years on rotation basis.

The Managing Director and CEO has a three (3) year renewable contract of service with Kenya Electricity Generating Company Plc starting from 30 October 2017.

Changes to Directors Remuneration

During the period, there were no changes in Directors Remuneration which is set as per the guidelines provided in the State Corporations Act and the Salaries & Remuneration Commission.

Statement of Voting on the Directors Remuneration Report at the Previous Annual General Meeting

During the Annual General Meeting held on 22 November 2017, the shareholders approved the payments of Directors fees for the year ended 30 June 2017 by show of hands.

At the Annual General Meeting to be held on 11 December 2018, approval will be sought from shareholders to pay Directors fees for the financial year ended 30 June 2018.

Directors' Remuneration Report

INFORMATION SUBJECT TO AUDIT (continued)

The following tables shows a single figure remuneration for the Managing Director and CEO and Non-Executive Directors in respect of qualifying services for the year ended 30 June 2018 together with the comparative figures for 2017. The aggregate Directors' emoluments are shown in note 15(d).

For the year ended 30 June 2018

Name	Category	Salary	Directors Fees	Allowances	Honorarium	Total
		Shs'000	Shs'000	Shs'000	Shs '000	Shs '000
Joshua Choge	Chairman, Non-Executive	-	600	1,540	960	3,100
Albert Mugo (Retired on 25 August 2017)	Managing Director and CEO	3,479	-	-	-	3,479
Rebecca Miano (Appointed on 30 October 2017)	Managing Director and CEO	11,267	-	-	-	11,267
Henry Rotich (CS, The National Treasury and Planning)	Non-Executive	-	600	-	-	600
Joseph Njoroge (PS, Ministry of Energy)	Non-Executive	-	600	-	-	600
Dorcas Kombo (Retired on 22 November 2017)	Non-Executive	-	238	940	-	1,178
Ziporah Ndegwa	Non-Executive	-	600	1,360	-	1,960
Musa Arusei	Non-Executive	-	600	1,960	-	2,560
Kairu Bachia	Non-Executive	-	600	1,800	-	2,400
Joseph Sitati	Non-Executive	-	600	1,580	-	2,180
Maurice Nduranu	Non-Executive	-	600	920	-	1,520
Phyllis Wakiaga	Non-Executive	-	600	700	-	1,300
Reginalda Wanyonyi (Appointed on 22 November 2017)	Non-Executive	-	362	1,120	-	1,482
Humphrey Muhu (Alternate to Henry Rotich)	Non-Executive	-	-	1,420	-	1,420
William Mbaka (Alternate to Joseph Njoroge)	Non-Executive	-	-	1,340	-	1,340
Total		**14,746**	**6,000**	**14,680**	**960**	**36,386**

INFORMATION SUBJECT TO AUDIT (continued)

For the year ended 30 June 2017

Name	Category	Salary	Directors Fees	Allowances	Honorarium	Total
		Shs'000	Shs'000	Shs'000	Shs '000	Shs '000
Joshua Choge	Chairman, Non-Executive	-	600	1,620	960	3,180
Albert Mugo	Managing Director and CEO	23,703	-	-	-	23,703
Henry Rotich (CS, The National Treasury and Planning)	Non-Executive	-	600	-	-	600
Joseph Njoroge (PS, Ministry of Energy)	Non-Executive	-	600	-	-	600
Dorcas Kombo	Non-Executive	-	600	1,640	-	2,240
Ziporah Ndegwa	Non-Executive	-	600	1,560	-	2,160
Musa Arusei	Non-Executive	-	600	1,840	-	2,440
Kairu Bachia	Non-Executive	-	600	1,440	-	2,040
Joseph Sitati	Non-Executive	-	600	1,220	-	1,820
Maurice Nduranu	Non-Executive	-	600	1,020	-	1,620
Phyllis Wakiaga (Elected on 30 November 2016)	Non-Executive	-	348	380	-	728
Millicent Omanga (Retired on 30 November 2016)	Non-Executive	-	252	860	-	1,112
Humphrey Muhu (Alternate to Henry Rotich)	Non-Executive	-	-	1,340	-	1,340
William Mbaka - Alternate to Joseph Njoroge (Appointed on 4 October 2016)	Non-Executive	-	-	1,000	-	1,000
Momata Gichana (Retired on 4 October 2016)	Non-Executive	-	-	80	-	80
Total		**23,703**	**6,000**	**14,000**	**960**	**44,663**

On behalf of the Board

Secretary **Date: 25 October 2018**

Independent Auditor's Report

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke

P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA ELECTRICITY GENERATING COMPANY PLC FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Kenya Electricity Generating Company Plc set out on pages 127 to 210, which comprise the statement of financial position as at 30 June 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by PricewaterhouseCoopers auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Electricity Generating Company Plc as at June 30, 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Electricity Generating Company Plc in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key Audit Matters are those matters that, in my professional judgment, were of most significance in the audit of the Company's financial statements of the current year. These matters were addressed in the context of the audit of the Company's financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context. I have fulfilled the responsibilities described in Auditor's Responsibilities for the Audit of the Financial Statements section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

Key audit matter	How the audit addressed the key audit matter
1. Accounting treatment of the financial asset at fair value through profit or loss As explained under Note 16, the company has recorded a financial asset at fair value through profit or loss of Kshs. 11,306,096,000 (2017: Kshs. 14,005,833,000). The asset relates to unrealized exchange difference on foreign denominated borrowings recoverable from Kenya Power and Lighting Company Limited ("Kenya Power") under the respective Power Purchase Agreements ("PPAs") with Kenya Power. In line with IAS 39, the asset is required to be measured at fair value at each reporting date. Gains and losses arising from changes in fair value are recognized in other gains and losses (Note 6) Significant judgement has been made in the valuation of the asset and in determining the fair value gains or losses recorded in relation to the judgement	We obtained and reviewed the Power Purchase agreements that give rise to the right to recover foreign exchange differences from Kenya Power. We evaluated the appropriateness of the designation of the asset arising in accordance with the International Financial Reporting Standards (IFRS). We tested the valuation Methods and inputs used in measuring the financial asset fair value through profit or loss. We also reviewed the appropriateness of the classifications of the financial asset at fair value through profit or loss in the financial statements
2. Provision for compensating tax As discussed under Note 28 and 32 of the	We performed the following audit procedures; • Held discussions with management

Independent Auditor's Report

financial statements, the Company has a compensating tax liability of Kshs. 2,331,022,000 (2017: Kshs. 2,431,022,000) due to the Kenya Revenue Authority (KRA) arising from payment of dividends in prior years. No provision has been recorded for the related interest and penalties arising on the unpaid taxes. The amount of interest and penalties if levied on outstanding liability, would amount to Kshs. 963,305,000 in the current year (2017: Kshs. 661,328,000). Management is in discussions with KRA in relation to the unpaid taxes and related interest and penalties; as this engagement has not been concluded, the determination of what amounts if any will eventually be payable is a matter of judgement	and reviewed available correspondence with KRA and other stakeholders in relation to the tax assessment • Reviewed the computation of compensating tax principal, interest and penalties.
3. Recoverability of amounts due from Kenya Power and Lighting Company As disclosed in Notes 15(a(i)) and 15(a(iii)), the company has recognized receivables of Kshs. 22,871,154,000 due from Kenya Power. Significant judgement has been made by management in assessing recoverability of these balances	We reviewed the makeup of the debtor balance with Kenya power based on records provided by management. We requested for confirmations from Kenya Power for the balances outstanding at the year end and where balances confirmed differed from those recognized in the financial statements, we tested the reconciliation between the amounts recorded and those confirmed. We also tested the ageing of the debtor against the agreed credit terms with Kenya Power subsequent to the year end.

4. Valuation of Retirement Benefits Obligation	
As explained under Note 25, the Company operates a closed defined benefits scheme. At year end, management engaged the services of an actuary to carry out a valuation of the retirement benefit obligation in line with the requirements of International Accounting Standards (IAS) 19(R). Significant judgement has been made by management in: • Valuation of the present value of the future obligation and the fair value of the plan assets; and • Application of the asset ceiling on the net defined benefit asset. The application of the asset ceiling was carried out for the first time in the current financial year. This has been done retrospectively with the prior period balances restated in line with the requirements of IAS 8.	We obtained the actuarial valuation report for each of the years presented and: • Tested the inputs into the model. • Reviewed the assumptions made by the actuary in the valuation of the retirement benefit obligation. • Tested the computation of the asset ceiling for each of the years presented.

Other Information

The other information comprises the Chairman's Statement and the Managing Director & CEO's Statement, which I obtained prior to the date of this auditor's report, and the rest of the other information in the Annual Report which is expected to be made available to me after that date, but does not include the financial statements and my auditor's report thereon. The directors are responsible for the other information. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I

Independent Auditor's Report

conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

When I read the rest of the other information in the Annual Report and we conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance.

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

As required by Article 229(6) of the Constitution, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS

As required by Section 7 (1) (a) of the Public Audit Act, 2015, I confirm that, nothing has come to my attention to cause me to believe that internal controls were not operating in an effective way.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on the audit that:

(i) In my opinion, the information given in the report of the directors on pages 12 to 14 is consistent with the financial statements.

(ii) In my opinion the auditable part of the directors' remuneration report on pages 117 to 119 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the directors are aware of any intension to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting process.

The directors are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material

Independent Auditor's Report

uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with management, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. These matters are described in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

25 October 2018

	Note	2018	2017
			Restated*
		Shs'000	Shs'000
Revenue			
Electricity Revenue	4 (a)	29,285,691	29,006,622
Steam Revenue	4 (b)	6,222,057	5,189,072
Fuel charge	4 (c)	9,622,740	9,069,403
Water charge	4 (d)	159,172	166,822
Total revenue		45,289,660	43,431,919
Reimbursable expenses			
Fuel costs	4 (c)	(9,246,855)	(8,812,614)
Water costs	4 (d)	(159,172)	(166,822)
		(9,406,027)	(8,979,436)
Revenue less reimbursable expenses		35,883,633	34,452,483
Other Income	5	274,771	553,148
Other (losses)/gains - net	6	(1,049,948)	343,268
		35,108,456	35,348,899
Expenses			
Depreciation and amortisation	8 (c)	(10,147,886)	(9,244,422)
Employee expenses	8 (a)	(6,132,305)	(5,754,748)
Steam costs	4 (b)	(3,549,428)	(2,795,798)
Plant operation and maintenance expenses		(1,669,068)	(1,554,480)
Other expenses	8 (b)	(2,168,131)	(2,454,146)
Operating profit		11,441,638	13,545,305
Finance income	7	3,341,383	1,333,325
Finance costs	9	(3,037,554)	(3,417,442)
Profit before income tax		11,745,467	11,461,188
Income tax expense	10(a)	(3,854,834)	(2,454,972)
Profit for the year		7,890,633	9,006,216

** Refer to note 37 for details*

Statement of Profit or Loss and Other Comprehensive Income

(continued)

	Note	2018	2017
		Shs'000	Restated* Shs'000
Other comprehensive income/(loss):			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit	25 (a)	(897,155)	(78,623)
Deferred tax on remeasurement	26	269,147	23,587
PPE impairment	12	-	(708,623)
Deferred tax on impairment	26	-	212,587
		(628,008)	(551,072)
Items that may be reclassified subsequently to profit or loss:			
Net gain/(loss) on revaluation of available-for-sale treasury bonds	17	5,087	22,572
Other comprehensive income for the year, net of income tax		(622,921)	(528,500)
Total comprehensive income for the year		7,267,712	8,477,716
Earnings per share			
Basic and diluted (Shs)	11	1.20	1.37
Dividends per share - Proposed (Shs)	21	0.40	-

** Refer to note 37 for details*

Statement of Financial Position

	Note	2018	2017	2016
ASSETS			Restated*	Restated*
Non-current assets	**Note**	**Shs'000**	**Shs'000**	**Shs'000**
Property, plant and equipment	12	328,082,460	323,843,363	320,932,980
Leasehold land	13	4,170,183	4,229,783	4,150,673
Intangible assets	14	1,477,691	1,317,066	1,181,241
Non-current receivables	15(a(iii))	987,875	1,032,014	1,147,368
Financial asset at fair value	16	10,490,414	13,117,376	13,890,353
Treasury bonds	17	2,407,047	2,414,108	2,420,560
Retirement benefit asset	25	325,268	1,136,503	1,098,771
		347,940,938	**347,090,213**	**344,821,946**
Current assets				
Inventories	18	1,149,180	1,082,044	866,698
Trade receivables	15(a(i))	21,883,279	15,751,937	9,347,411
Financial asset at fair value	16	815,682	888,457	698,229
Other receivables and prepayments	19	3,359,793	3,741,225	3,925,727
Non – current assets held for sale	29	344,053	-	-
Current income tax recoverable	10(c)	126,988	-	-
Treasury bonds	17	349,690	344,603	322,031
Cash and bank balances	20	3,383,402	7,831,103	6,756,324
		31,412,067	**29,639,369**	**21,916,420**
TOTAL ASSETS		**379,353,005**	**376,729,582**	**366,738,366**
EQUITY AND LIABILITIES				
Equity attributable to owners				
Share capital	21	16,487,710	16,487,710	15,609,684
Share premium	21	22,151,131	22,151,131	21,056,341
Other reserves	22	71,805,994	74,588,305	77,248,387
Retained earnings		79,658,790	69,608,767	58,470,969
		190,103,625	**182,835,913**	**172,385,381**
Non- current liabilities				
Borrowings	23(a)	121,287,608	127,884,286	126,149,009
Deferred income tax	26	45,496,036	42,056,582	40,073,728
Trade and other payables	27	1,586,258	3,859,604	9,940,189
		168,369,902	**173,800,472**	**176,162,926**
Current liabilities				
Borrowings	23(a)	10,620,761	10,829,802	10,757,003
Trade and other payables	27	7,927,695	6,771,915	4,943,371
Provision for compensating tax	28	2,331,022	2,431,022	2,431,022
Current income tax	10(c)	-	60,458	58,663
		20,879,478	**20,093,197**	**18,190,059**
TOTAL EQUITY AND LIABILITIES		**379,353,005**	**376,729,582**	**366,738,366**

The financial statements on pages 127 to 210 were approved and authorised for issue by the Board of Directors on 25 October 2018 and were signed on its behalf by:

Joshua Choge
Chairman

Joseph Sitati
Director

Rebecca Miano
Managing Director & CEO

**Refer to note 37 for details*

Statement of Changes in Equity - Restated*

	Share capital Shs'000	Share premium Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Total Shs'000
As at 1 July 2016	15,609,684	21,056,341	77,540,603	58,536,054	172,742,682
Restatement*	-	-	(292,216)	(65,085)	(357,301)
As restated	15,609,684	21,056,341	77,248,387	58,470,969	172,385,381
Profit for the year – restated*	-	-	-	9,006,216	9,006,216
Other comprehensive income;	-	-	-	-	-
- revaluation of bonds available for sale	-	-	22,572	-	22,572
– PPE impairment.	-	-	(708,623)	-	(708,623)
– Deferred income tax on impairment	-	-	212,587	-	212,587
-remeasurement of defined benefit – restated*	-	-	(78,623)	-	(78,623)
-deferred income tax on remeasurement – restated*	-	-	23,587	-	23,587
Total comprehensive income for the year	-	-	(528,500)	9,006,216	8,477,716
Transfer of excess depreciation	-	-	(3,045,117)	3,045,117	-
Deferred tax on excess depreciation	-	-	913,535	(913,535)	-
-rights issue (Note 21)	878,026	1,094,790	-	-	1,972,816
As at 30 June 2017	**16,487,710**	**22,151,131**	**74,588,305**	**69,608,767**	**182,835,913**
Note	21	21	22		

** Refer to note 37 for details*

Statement of Changes in Equity - Restated*

(continued)

	Share capital Shs'000	Share premium Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Total Shs'000
As at 1 July 2018 - restated	16,487,710	22,151,131	74,588,305	69,608,767	182,835,913
Profit for the year	-	-	-	7,890,633	7,890,633
Other comprehensive income;	-	-	-	-	-
- revaluation of bonds available for sale	-	-	5,087	-	5,087
-remeasurement of defined benefit	-	-	(897,155)	-	(897,155)
-Deferred income tax on remeasurement	-	-	269,147	-	269,147
Total Comprehensive for the year			(622,921)	7,890,633	7,267,712
Transfer of excess depreciation	-	-	(3,084,843)	3,084,843	-
Deferred tax on excess depreciation	-	-	925,453	(925,453)	-
As at 30 June 2018	16,487,710	22,151,131	71,805,994	79,658,790	190,103,625
Note	21	21	22		

** Refer to note 37 for details*

Statement of Cash Flows

Cash flows from operating activities	Note	2018 Shs '000	2017 Shs '000
Cash generated from operations	30(a)	17,452,461	12,491,879
Income tax paid	10(c)	(333,679)	(234,149)
Finance income received	30(b)	491,039	943,082
Payment of compensating tax	28	(100,000)	-
Net cash generated from operating activities		17,509,821	13,200,812
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(14,621,412)	(12,819,938)
Purchase of prepaid leasehold land	13	-	(137,730)
Purchase of intangible assets	14	(240,500)	(207,466)
Proceeds from disposal of assets		19,364	90,790
Net cash used in investing activities		(14,842,548)	(13,074,344)
Cash flows from financing activities			
Repayment of borrowings	23(d)	(8,953,636)	(8,972,147)
Proceeds from borrowings	23(d)	4,948,566	11,848,974
Cash proceeds from rights issue		-	1,972,816
Finance costs paid	30(c)	(3,138,467)	(3,903,443)
Net cash (used in)/generated from financing activities		(7,143,537)	946,200
Net (decrease) /increase in cash and cash equivalents		(4,476,264)	1,072,668
Cash and cash equivalents at the beginning of the year		7,831,103	6,756,324
Effects of exchange rate changes on cash and cash equivalents		28,563	2,111
Cash and cash equivalents at the end of the year	20	3,383,402	7,831,103

1. General information

The Company is incorporated and domiciled in Kenya under the Kenyan Companies Act, 2015. The Company was incorporated in 1954 as Kenya Power Company Limited (KPC) and was under management of Kenya Power and Lighting Company (KPLC). In 1997, the management was separated from Kenya Power and Lighting Company and the Company was renamed to Kenya Electricity Generating Company Plc (KenGen) following the implementation of the reforms in the energy sector. Its core business is to develop, manage and operate power generation plants to supply electric power to the Kenyan market. The shares of the Company are listed on the Nairobi Securities Exchange.

2. Significant Accounting policies

(a) Basis of preparation

(i) Compliance with IFRS

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

For the Kenyan Companies Act reporting purposes, in these financial statements, the balance sheet is represented by the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

I. Available for sale financial assets, certain classes of property, plant and equipment measured at fair value.
II. Financial asset through profit or loss held at fair value.
III. Defined benefit pension plans – plan assets measured at fair value.

(iii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

Notes to the Financial Statements *(continued)*

2. Significant Accounting policies (continued)

(a) Basis of preparation (continued)

(iii) New standards and interpretations not yet adopted (continued)

IFRS 9: Financial Instruments

Nature of change

IFRS 9 replaces IAS 39. It addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

IFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, we will not restate our prior period comparative financial statements when we adopt the requirements of the new standard. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 will be recognized as retained earnings and other comprehensive income (OCI) as if we had always followed the new requirements. The standard contains requirements in the following areas:

Classification and measurement

IFRS 9 introduces a principles-based approach to the classification of financial assets. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVTOCI) or amortized cost based on the nature of the cash flows of the assets and an entity's business model. These categories replace the existing IAS 39 classifications of FVTPL, available for sale (AFS), loans and receivables, and held-to-maturity. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9 other than the provisions relating to the recognition of changes in own credit risk for financial liabilities designated at fair value through profit or loss, as permitted by IFRS 9.The combined application of the contractual cash flow characteristics and business model tests as at 1 July 2018 is not expected to have a significant impact when compared to our classification under IAS 39.

Impairment

Overall comparison of the new impairment model and the current model

The new impairment guidance sets out an expected credit loss (ECL) model applicable to all debt instrument financial assets classified as amortized cost or FV-OCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVTPL.
Currently, impairment losses are recognized if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after initial recognition of the asset and that loss event has a detrimental impact on the estimated future cash flows of the asset that can be reliably estimated. If there is no objective evidence of impairment for an individual financial asset, that financial asset is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment losses incurred but not yet identified. Under IFRS 9, ECLs will be recognized in profit or loss before a loss event has occurred, which could result in earlier recognition of credit losses compared to the current model.

2. Significant Accounting policies (continued)

(a) Basis of preparation (continued)

(iii) New standards and interpretations not yet adopted (continued)

IFRS 9: Financial Instruments (continued)

Nature of change (continued)

Under the current standard, incurred losses are measured by incorporating reasonable and supportable information about past events and current conditions. Under IFRS 9, the ECL model, which is forward-looking, in addition requires that forecasts of future events and economic conditions be used when determining significant increases in credit risk and when measuring expected losses.

Scope

Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVTOCI, which are not subject to impairment assessment. The scope of the IFRS 9 expected credit loss impairment model includes amortized cost financial assets, debt securities classified as at FVTOCI, and off balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37).

Measurement of Expected Credit Losses (ECL)

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.
The measurement of ECLs will be based primarily on the product of the instrument's probability of default (PD), loss given default (LGD), and exposure at default (EAD).

The ECL model contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.

Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded.

Notes to the Financial Statements *(continued)*

2. Significant Accounting policies (continued)

(a) Basis of preparation (continued)

(iii) New standards and interpretations not yet adopted (continued)

IFRS 9 (continued)

Scope (continued)

Assessment of significant increase in credit risk

The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition.

Stage 3- Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the current requirements under IAS 39 for impaired financial instruments.

Impact

The Company has reviewed its financial assets and liabilities and is expecting the following impact from adoption of the new standard on 1 July 2018:

The adoption of IFRS 9 will require a review of the current classification of financial assets and liabilities. The categories for financial assets changed from IAS 39 to IFRS 9. The IAS 39 held-to-maturity, loans and receivables and available-for-sale categories have been replaced by fair value through other comprehensive income, fair value through profit or loss and measured at amortised cost. A preliminary assessment has been carried out and established that majority of the Company's debt instruments are currently classified at amortised cost and hence there will be no change to the accounting for these assets. The remaining classification categories are still being finalised.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. The other financial assets held by the Company include debt instruments currently classified as Available for Sale (AFS) for which FVTOCI election is available. The Company has determined that the application of an expected credit loss model is likely to result in an earlier recognition of credit losses on receivables from its major customer.

The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed. The Company does not have any hedge relationships and therefore the new hedge accounting rules have no impact to the Company.

2. Significant Accounting policies (continued)

(a) Basis of preparation (continued)

(iii) New standards and interpretations not yet adopted (continued)

IFRS 9 (continued)

Date of adoption

Must be applied for financial years commencing on or after 1 January 2018.

The Company will apply the rules from 1 July 2018 with the practical expedients permitted under the standard. Comparatives for 2018 will not be restated.

IFRS 15 Revenue from contracts with customers

Nature of change

IFRS 15 replaces the two main revenue recognition standards, IAS 18 Revenue and IAS 11 Construction Contracts and their related interpretations.

IFRS 15 provides a single controlbased revenue recognition model and clarifies the principles for recognising revenue from contracts with customers. The core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service.

IFRS 15 also includes comprehensive disclosure requirements that will provide users with information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The new guidance includes a five-step in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 excludes from its scope revenue related to lease contracts, insurance contracts and financial instruments. As a result, the majority of our revenue will not be impacted by the adoption of this standard, including net interest income.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Notes to the Financial Statements *(continued)*

2. Significant Accounting policies (continued)

(a) Basis of preparation (continued)

(iii) New standards and interpretations not yet adopted (continued)

IFRS 15 Revenue from contracts with customers (continued)

Impact (continued)

We continue to evaluate the effect of this standard on our financial statements, including the presentation of revenue and expense items, and the timing and measurement of revenue for certain types of contracts. We do not currently expect a material impact to financial statements as a result of adopting this standard.

Date of adoption

Must be applied for financial years commencing on or after 1 January 2018.

The Company will apply the rules from 1 July 2018 with the practical expedients permitted under the standard. Comparatives for 2018 will not be restated.

IFRS 16 Leases

Nature

IFRS 16 was issued in January 2016. It specifies the recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 Leases. The new standard will result in on-balance sheet recognition for many leases that are considered operating leases under IAS 17, which will result in the gross-up of the balance sheet through the recognition of a right-of-use asset and a liability for the lease component of the future payments.

Impact

The Company expects that the new standard will primarily affect its accounting for operating leases, in particular those relating to its property and equipment.

On adoption of IFRS 16 operating lease costs will no longer be recognised as operating expenses. The extent of the reduction in lease expenses is dependent on the application of the practical expedients in IFRS 16 regarding the separation of lease and non-lease components and the impact of the application of the low value asset exemption. The new standard will require the recognition of lease liabilities and corresponding right-of-use assets. The Company will recognise depreciation on the right-of-use assets and interest on the lease liabilities over the lease term in profit or loss.

The initial lease liabilities and right-of-use assets recognised upon transition to IFRS 16 would likely be representative of the non-cancellable lease commitments, discounted at an appropriate rate as applicable to the operation in which the lease arises, after taking into account the impact of the practical expedients and transitional elections applied by the Company.

It is anticipated that while the EBITDA and the related EBITDA margin will improve significantly, depreciation and finance charges will also increase significantly.

2. Significant Accounting policies (continued)

(a) Basis of preparation (continued)

(iii) New standards and interpretations not yet adopted (continued)

IFRS 16 Leases (continued)

Impact (continued)

Application of IFRS 16 will impact the EBITDA ratios significantly. IFRS 16 permits multiple transition methods, and the Company is yet to determine which transition method would be the most appropriate.

The new standard contains enhanced disclosure requirements for both lessees and lessors. We continue to evaluate the impact of IFRS 16 on our financial statements.

Date of adoption

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Company does not intend to adopt the standard before its effective date.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Annual Improvements to IFRS Standards 2016–2018 Cycle

Applicable to annual reporting periods beginning on or after 1 July 2018

Makes amendments to the following standards:

- **IAS 12** - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.
- **IAS 23** - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

(b) Revenue and income

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable excluding discounts, rebates and sales taxes or duty.

Electricity revenue

Electricity revenue is recognised based on available capacity and energy sold to the authorised distributor's transmission systems. The Power Purchase Agreements (PPAs) between the Kenya Power and Lighting Company (Kenya Power) provide for the following categories of revenue:

- *Capacity revenue* - This relates to the amounts earned from Kenya Power in respect of the contracted capacity as provided for in the PPAs. The charge rates comprise of the investment component and a fixed charge. Contracted capacity is expressed in megawatts (MW).

Notes to the Financial Statements *(continued)*

2. Significant Accounting policies (continued)

(b) Revenue and income (continued)

- *Energy revenue* - This relates to the amounts earned from Kenya Power in respect of the Net Electrical Output (NEO) as provided for in the PPAs. Net Electrical Output (NEO) refers to the electrical energy delivered to Kenya Power from the plant measured in Kilowatt hours (kWh).

Steam Revenue

Steam revenue is recognised based on the geothermal power sold to the authorised distributor's transmission system as provided for in the PPAs. Steam revenue is divided into the following categories;

- **Third party steam revenue** – This relates to steam revenue earned from Kenya Power relating to steam purchased from a third party, Geothermal Development Company ('GDC'). The GDC wells from which this steam is obtained are managed by KenGen. Of the total revenue generated, 69.5% is billed by GDC and is recognised as a cost, under steam costs.

- **KenGen steam revenue-** This relates to steam revenue earned from Kenya Power for the use of steam obtained from KenGen's own wells.

Fuel charge

Fuel charge is recognised based on amounts billed to Kenya Power for fuel used in the generation of electricity. The fuel revenue is billed based on a predetermined formula embedded in the PPAs. The corresponding cost incurred by KenGen for the fuel used in the power generation is recognised as a cost, under reimbursable expenses.

Water charge

Water charge is recognised based on amounts billed to Kenya Power for water used in the generation of electricity. The corresponding cost incurred by KenGen for the water used in the power generation is recognised as a cost, under reimbursable expenses.

Other income

Realised foreign exchange loss billed - This relates to the recovery of the losses arising from foreign currency exchange rate fluctuations affecting the foreign currency transacted balances used purposely for power generation. The Company recovers these from Kenya Power and ultimately to the final consumer.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income is accounted for on a straight-line basis over the lease term.

2. Significant Accounting policies (continued)

(c) Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Kenya Shillings in thousands (Shs) which is the Company's functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss within 'other income or expenses'.

(d) Taxation

Income tax expense represents the sum of current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

(i) Current tax

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. The Directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets/losses are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes to the Financial Statements *(continued)*

2. Significant Accounting policies (continued)

(e) Employees' benefits

(i) Retirement benefits obligations

The Company operates a defined benefits scheme and a defined contributions scheme.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Re-measurements, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Re-measurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as service costs (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense or income and re-measurement.

The Company presents the first two components of defined benefit costs in profit or loss in the line item of pension cost-defined benefit scheme (included in staff costs). Curtailment gains and losses are accounted for as past service costs.

ii) Other entitlements

The monetary benefits for employees' accrued annual leave entitlement at the reporting date are recognised as an expense accrual.

(f) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Land and buildings, transmission lines and plant and equipment are subsequently shown at fair value less subsequent depreciation for buildings, plant and machinery.Valuations are performed by external independent valuers on a periodic basis. All other categories of assets stated at historical cost less depreciation.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised on qualifying assets. Such items of property, plant and equipment are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

2. Significant Accounting policies (continued)

(f) Property, plant and equipment (continued)

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date. Any increases arising on the revaluation of such plant and machinery is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. The assets were last revalued in 2015.

A decrease in the carrying amount arising on the revaluation of such an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

All productive wells are capitalised in property, plant and equipment when connected and are depreciated over their useful lives. The useful life is currently estimated to be twenty-five years from the date of commencement of commercial operation. The cost of unproductive wells is transferred to the profit or loss in the year in which they are certified complete but unproductive. Where a well ceases to be productive before the end of its expected useful life, the net book value of the well is charged to the profit or loss in the year it ceases to be productive.

Depreciation

Depreciation is calculated on the straight-line basis and is recognised so as to write off the cost or valuation of assets (other than freehold land and Work-in progress under construction) less their residual values over their useful lives, using the straight-line method.

The annual depreciation rates in use are:

Asset class	*Depreciation rates*
Buildings	2.85%
Transmission lines	2.5%
Plant and machinery:	
Intake and tunnels	*1%*
Hydro plants	*2%*
Geothermal wells	*4%*
Geothermal plants	*4%*
Thermal plants and wind plants	*5%*
Rigs	6.67%
Motor vehicles	25%
Computers	20%
Furniture, equipment and fittings	12.5%

Notes to the Financial Statements *(continued)*

2. Significant Accounting policies (continued)

(f) Property, plant and equipment (continued)

Depreciation (continued)

Freehold land is not depreciated and leasehold land is amortised over the lease period.

Residual value, useful life and depreciation methods are reviewed at least annually at the reporting date. Changes in the residual value and expected useful life are accounted for by changing the depreciation charge for the year, and treated as changes in accounting estimates.

Depreciation on revalued assets is recognised in profit or loss and a transfer of excess depreciation is made from the asset revaluation reserve to retained earnings. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Capitalisation of employee costs

The employee costs directly and indirectly attributable to projects associated with development of power generating resources are capitalised. Capitalisation rates are based on estimated time and effort spent on the related project activities.

Capitalisation of depreciation and amortisation

The depreciation and amortisation costs directly attributable to projects associated with development of power generating resources are capitalised. Capitalisation rates are based on estimated depreciation rates and time of use by the project.

(g) Intangible assets

Intangible assets comprise of computer software acquired for business process and operations. Intangible assets acquired separately are measured on initial recognition at cost and are subsequently carried at fair value less subsequent amortisation and any accumulated impairment losses. The useful life of the assets depends on the duration of the licences. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates..

The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

2. Significant Accounting policies (continued)

(h) Impairment

At each reporting date the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.
Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Capitalised costs include interest charges on borrowings for projects under construction.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) Inventories

Inventories are valued at the lower of cost or net realisable value. Cost is determined on a weighted average basis and comprises expenditure incurred in the normal course of business, including direct material costs. Net realisable value is the price at which the inventory can be realised in the normal course of business after allowing for the costs of realisation. Obsolete and defective inventories are fully written off. Engineering spares which are used for more than one period are categorised as plant and equipment. All other spares used on normal operations are categorised as consumables and classified under inventory.

Notes to the Financial Statements *(continued)*

2. Significant Accounting policies (continued)

(k) Financial instruments

Financial Assets

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as Available-for-sale financial assets or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The Company has investments in debt securities that are traded in an active market and are stated at fair value at the reporting date.

The fair value of available-for-sale debt securities is determined by reference to published price quotations in an active market. Interest income calculated using the effective interest method is recognised in profit or loss except for interest income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets which is deducted from the borrowing costs eligible for capitalisation.

2. Significant Accounting policies (continued)

(k) Financial instruments (continued)

Available-for-sale financial assets (continued)

Fair value changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

At each reporting date, all financial assets are subject to review for impairment. If it is probable that the Company will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount either directly or through use of an allowance account. The amount of the loss incurred is dealt with through profit or loss for the period.

For Available-for-sale debt securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Notes to the Financial Statements *(continued)*

2. Significant Accounting policies (continued)

(k) Financial instruments (continued)

Financial assets at fair value through profit or loss

The Company designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed and can only be applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise; or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis; or
- the financial assets consists of debt host and embedded derivatives that must be separated.

Financial assets at fair value through profit or loss are carried at fair value, the fair value designation is made on initial recognition of the asset and is irrevocable. Subsequent to initial recognition, the fair values are re-measured at each reporting date. Fair value gains and losses arising from changes in fair value are recognised in other income.

Impairment of financial assets

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 40 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

2. Significant Accounting policies (continued)

(k) Financial instruments (continued)

Impairment of financial assets (continued)

When an Available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of Available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

De-recognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On de-recognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Company retains control), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Notes to the Financial Statements *(continued)*

2. Significant Accounting policies (continued)

(k) Financial instruments (continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or 'other financial liabilities'

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or 'other financial liabilities'.

2. Significant Accounting policies (continued)

(l) Accounting for leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(m) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from retained earnings when approved by the Company's shareholders. Interim dividends are deducted from retained earnings when they are declared and no longer at the discretion of the Company.

(n) Grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

Notes to the Financial Statements *(continued)*

2. Significant Accounting policies (continued)

(o) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(p) Cash and cash equivalents

In the statement of cash flows, cash and cash equivalent includes cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less, net of bank overdrafts.

(q) Earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year (note 11).

i) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(r) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The Company's Board of Directors, which consists of the Managing Director and the Chief Executive Officer and other Directors is the Company's Chief Operating Decision Maker (CODM).

(s) Non – current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell. An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell.

A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

2. Significant Accounting policies (continued)

(s) Non – current assets held for sale (continued)

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

3. Critical accounting estimates and judgements

In the application of the Company's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations, that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements

Held-to-maturity financial assets

The Directors have reviewed the Company's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the Company's positive intention and ability to hold those assets to maturity. The carrying amount of the held-to-maturity financial assets is Shs 2,407,047,000 (30 June 2017: Shs 2,414,108,000). Details of these assets are set out in note 17.

Financial assets at fair value

The Directors have determined the value of the financial asset at fair value using valuation techniques which incorporate assumptions that are directly supported by observable market data. Management have exercised judgement in determining the future spot rates and the discount rates to use in the discounting of the future cash inflows.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Details on deferred tax are set out in note 26.

Capitalisation of staff and other costs

Project related costs including employee costs are capitalised. The rates applied in capitalising the employee costs are based on estimated time spent on the capital projects. Significant judgement is required in determining capitalisation rates to be applied on indirect staff costs. Disclosure of capitalised costs is set out on note 8.

Notes to the Financial Statements *(continued)*

3. Critical accounting estimates and judgements (continued)

Revaluation of property plant and equipment

Certain categories of property plant and equipment are stated at fair value. Revaluations are performed by professional valuers at sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date. At the reporting date, the Directors assess the carrying amount of revalued property, plant and equipment and apply judgement to determine that these do not differ materially from that which would be determined using independent valuers at 30 June 2018.

Classification of leases of land as finance or operating leases

At the inception of each lease of land or building, the Company considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term; The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

The Company also considers indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease. Examples of such indicators include;

- If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Useful lives of property, plant and equipment

The Company reviews the estimated useful lives of property, plant and equipment at the reporting date. The useful lives of the plants are then used in establishing the contracts that the Company enters into under the Power Purchase Agreements.

At the reporting date, the Company reviews the carrying amounts of its property, plant & machinery, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

3. Critical accounting estimates and judgements (continued)

Useful lives of property, plant and equipment (continued)

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Any impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss, other than that arising from goodwill, is recognised as income immediately.

Impairment losses

At the reporting date, the Company reviews the carrying amounts of its property, plant & machinery, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Any impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss, other than that arising from goodwill, is recognised as income immediately.

Impairment of available-for-sale financial assets

The Company classifies certain assets as available-for-sale and recognises movements in their fair value through other comprehensive income. The Company treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists

Actuarial valuation of defined benefits plan

The asset or liability due under the defined benefit pension plan is determined using actuarial valuation techniques. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

Impairment of receivables

As at the reporting date the critical estimates are made by the directors in determining the recoverable amount of impaired receivables. The impairment of trade receivables is assessed based on the incurred loss model. Individual receivables which are known to be uncollectible were assessed for impairment. The other receivables were assessed collectively to determine whether there is objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses is recognised in a separate provision for impairment.

Impairment of inventory

Critical estimates are made by the directors in determining the recoverable amount of impaired inventory. The carrying amount of impaired inventory is set out in Note 18.

Compensating tax provisions

The Company has made provisions against compensating tax on dividends. The estimated provisions were made by the Directors following the payments of dividends in 2016.

Notes to the Financial Statements *(continued)*

4. Revenue

	2018 Shs'000	2017 Restated* Shs'000
a) Electricity Revenue		
Capacity revenue (note 4(a (i)))	21,139,411	21,713,926
Energy revenue (Note 4(a (ii)))	8,146,280	7,292,696
	29,285,691	29,006,622
i) Capacity Revenue		
Hydro	7,119,786	7,582,945
Geothermal	11,176,933	10,931,047
Thermal	2,842,692	3,199,934
	21,139,411	21,713,926
ii) Energy Revenue		
Hydro	1,212,377	1,037,952
Geothermal	5,934,919	5,171,007
Thermal	603,721	563,673
Wind	395,263	520,064
	8,146,280	7,292,696
b) Steam revenue		
Third party revenue	5,085,918	4,200,944
KenGen Steam revenue	1,136,139	988,128
	6,222,057	5,189,072

The amounts billed to KenGen by GDC relating to the steam purchased amounts to Shs 3,549,428,000 (2017: Shs 2,795,798,000). These have been recorded as steam costs in the statement of profit and loss and other comprehensive income.

	2018 Shs'000	2017 Restated* Shs'000
c) Fuel charge	9,622,740	9,069,403

The fuel costs that have been billed to KenGen in the year amount to Shs 9,246,855,000 (2017: Shs 8,812,614,000). These have been recorded as fuel costs in the statement of profit and loss and other comprehensive income.

4. Revenue (continued)

	2018 Shs'000	2017 Restated* Shs'000
d) Water charge	159,172	166,822

The water costs that have been billed to KenGen by the Water Resource Management Authority in the year amount to Shs 159,172,000 (2017: Shs 166,822,000). These have been recorded as water costs in the statement of profit and loss and other comprehensive income.

* Refer to note 37 for details

5. Other income

	2018 Shs'000	2017 Restated* Shs'000
Miscellaneous income	183,060	191,341
Gain on disposal of property, plant and equipment	951	15,814
Insurance compensation	90,760	286,321
Management fees	-	2,281
Carbon credits	-	57,391
	274,771	553,148

6. Other (losses)/ gains -net

	2018 Shs'000	2017 Restated* Shs'000
Realised foreign exchange loss billed - others (Note 15 (a) (iv))	667,772	362,203
Foreign exchange gains from other monetary items	40,502	38,060
Fair value loss on revaluation of the financial asset at fair value through profit or loss (Note 16)	(1,751,161)	(50,543)
Amortization of held to maturity investments (Note 17(c))	(7,061)	(6,452)
	(1,049,948)	343,268

7. Finance income

	2018 Shs'000	2017 Restated* Shs'000
Interest income from Kenya Power (Note 15 (a) (iv))	1,015,183	312,761
Interest income from treasury bonds	246,804	282,242
Interest income from banks and other financial institutions	227,180	642,332
Interest income from staff advances	4,175	4,822
Foreign exchange gains on borrowings (Note 23 (d))	1,848,041	91,168
	3,341,383	1,333,325

Interest income from Kenya Power relates to interest penalties charged to Kenya Power due to late payments invoices. Interest on late payments accrues after 40 days.

** Refer to note 37 for details*

Notes to the Financial Statements *(continued)*

8 Expenses

	2018 Shs'000	2017 Restated* Shs'000
(a) Employee benefits expenses		
Salaries, wages and other staff costs	8,052,062	6,936,068
Welfare and benefits	472,778	574,686
Training expenses	153,462	194,562
Retirement benefit cost:		
– Post-employment benefit (Note 25a)	(47,854)	(75,035)
– Defined benefit and contribution schemes	550,167	522,789
– National Social Security Fund	6,058	5,063
	9,186,673	8,158,133
Less: Capitalised costs**	(3,054,368)	(2,403,385)
	6,132,305	5,754,748

**The employee expenses incurred and attributable to implementation of capital projects are capitalised in line with the Company accounting policy disclosed under Note 2.

	2018 Numbers	2017 Numbers
The number of persons employed by the Company at the year-end was		
- Operational staff	1,750	1,703
- Geothermal resource assessment and other projects staff	758	773
	2,508	**2,476**
Management staff	1,485	1,413
Union Staff	1,023	1,063
Total	**2,508**	**2,476**
Permanent employees – management	1,248	1,191
Permanent employees – unionisable	680	712
Contract employees	580	573
Total	**2,508**	**2,476**

** Refer to note 37 for details*

8 Expenses (continued)

	2018 Shs'000	2017 Restated* Shs'000
(b) Other Expenses		
Insurance expenses	767,969	684,293
Office expenses	273,884	277,182
Catchment preservation and dam maintenance	107,000	107,000
Transport and travelling costs	496,896	475,638
Consultants fees	25,097	49,873
Provision for bad debts	-	428,610
Legal and statutory expenses	116,285	122,974
Corporate social responsibility	172,532	73,510
Director's fees and expenses	52,259	75,709
Advertising	45,419	67,570
Auditor's remuneration	8,000	8,000
Other costs	102,790	83,787
	2,168,131	2,454,146
(c) Depreciation and amortization		
Depreciation (Note 12)	10,704,411	9,809,464
Less: amount capitalized**(note 12)	(690,463)	(689,766)
	10,013,948	9,119,698
Amortisation - Prepaid leases on leasehold land (Note 13)	59,600	58,620
Less: amount capitalised	(5,537)	(5,537)
	54,063	53,083
- Intangible assets- software (Note 14)	79,875	71,641
Total depreciation and amortisation charge for the year	10,147,886	9,244,422

** The depreciation and amortization relating to leasehold land, drilling rigs and other equipment are capitalised as part of the cost of the wells in accordance with the Company accounting policy disclosed under Note 2.The main project ongoing in the development of Olkaria V power station.

Refer to note 37 for details

Notes to the Financial Statements *(continued)*

9. Finance cost

	2018 Shs'000	2017 Shs'000
Interest on borrowings	4,654,136	5,167,725
Less: capitalised interest*	(1,616,582)	(1,750,283)
	3,037,554	3,417,442

*The interest relating to implementation of projects are capitalised as part of the cost of the projects in accordance with the Company accounting policy disclosed under Note 2.

10. Current income tax expense- Restated*

(a) Taxation charge	2018 Shs'000	2017 Restated* Shs'000
Current income tax	146,233	235,944
Deferred tax charge (Note 26)	3,708,601	2,219,028
	3,854,834	2,454,972

Current income tax relates to interest which is taxed as a separate source of income.

(b) Reconciliation of expected tax based on profit before taxation to taxation charge

	2018 Shs'000	2017 Shs'000
Profit before taxation	11,745,467	11,461,188
Tax applicable rate of 30%	3,523,640	3,438,356
Tax effect of capital allowances exceeding 100% of cost	-	(1,320,005)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Ineligible depreciation of property plant and equipment	181,117	212,061
Ineligible amortisation of intangibles	16,219	15,925
Social responsibility	51,760	22,053
Club subscriptions	232	740
Bond amortization	2,118	1,936
Profit on retirement of fixed assets	(285)	(4,744)
Pension and provident fund	72,848	77,918
Loss on retirement of fixed assets	7,185	10,732
Total taxation charge	3,854,834	2,454,972

** Refer to note 37 for details*

10. Current income tax expense- Restated* (continued)

(c) Current income tax (recoverable)/ payable

	2018 Shs'000	2017 Shs'000
Balance brought forward	60,458	58,663
Interest taxed as a separate source of income (Note 10(a))	146,233	235,944
Paid during the year	(333,679)	(234,149)
At end of year	(126,988)	60,458

11. Earnings per share

Basic earnings per share have been calculated by dividing the net profit for the year by the weighted average number of ordinary shares in issue during the year. There were no potentially dilutive shares as at 30 June 2018.

	2018	2017
Profit attributable to ordinary shareholders (in Shs'000)	7,890,633	9,006,216
Number of ordinary shares in issue at end of year	6,594,522,339	6,594,522,339
Basic and diluted earnings per share (Shs)	1.20	1.37

** Refer to note 37 for details*

Notes to the Financial Statements *(continued)*

12. Property , plant and equipment

	Freehold land and buildings	Transmission lines	Plant and machinery	Motor vehicles	Furniture, Equipment and fittings	Work- in-progress	Total
Cost or Valuation Year ended 30 June 2017	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At 1 July 2016	42,923,901	3,696,256	189,565,893	1,690,924	3,878,222	93,645,024	335,400,220
Additions						12,819,938	12,819,938
Depreciation capitalised	-	-	-	-	-	689,766	689,766
Transfers from WIP	2,706,525	539,599	31,630,049	231,029	439,738	(35,546,940)	-
Impairment	-	-	(708,623)				(708,623)
Disposals	-	-	(89,365)	(25,524)	-	-	(114,889)
At 30 June 2017	**45,630,426**	**4,235,855**	**220,397,954**	**1,896,429**	**4,317,960**	**71,607,788**	**348,086,412**
Depreciation							
At 1 July 2016	2,242,387	248,233	7,930,715	1,137,313	2,908,592	-	14,467,240
Charge for year	1,320,037	185,615	7,789,321	165,042	349,449	-	9,809,464
Disposals	-	-	(10,337)	(23,318)	-	-	(33,655)
At 30 June 2017	**3,562,424**	**433,848**	**15,709,699**	**1,279,037**	**3,258,041**	**-**	**24,243,049**
Net book value as at 30 June 2017	**42,068,002**	**3,802,007**	**204,688,255**	**617,392**	**1,059,919**	**71,607,788**	**323,843,363**
Net book value as at 30 June 2017 (Cost basis)	30,033,164	1,335,966	134,972,407	617,390	1,059,920	71,607,788	239,626,635

12. Property , plant and equipment (continued)

Year ended 30 June 2018	Freehold land and buildings	Transmission lines	Plant and machinery	Motor vehicles	Furniture, equipment and fittings	Work- in-progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Cost or Valuation							
At 1 July 2017	45,630,426	4,235,855	220,397,954	1,896,429	4,317,960	71,607,788	348,086,412
Additions	-	-	-	-	-	14,621,412	14,621,412
Depreciation capitalised	-	-	-	-	-	690,463	690,463
Transfers from WIP	1,292,552	30,946	797,707	238,440	257,897	(2,617,542)	-
Transfers to asset held for sale (Note 29)	-	-	(344,053)	-	-	-	(344,053)
Disposals	-	-	(26,088)	(23,119)	-	-	(49,207)
At 30 June 2018	**46,922,978**	**4,266,801**	**220,825,520**	**2,111,750**	**4,575,857**	**84,302,121**	**363,005,027**
Depreciation							
At 1 July 2017	3,562,424	433,848	15,709,699	1,279,037	3,258,041	-	24,243,049
Charge for year	1,335,572	187,230	8,612,378	205,685	363,546	-	10,704,411
Disposals	-	-	(3,984)	(20,909)	-	-	(24,893)
At 30 June 2018	**4,897,996**	**621,078**	**24,318,093**	**1,463,813**	**3,621,587**	**-**	**34,922,567**
Net book value as at 30 June 2018	**42,024,982**	**3,645,723**	**196,507,427**	**647,937**	**954,270**	**84,302,121**	**328,082,460**
Net book value as at 30 June 2018 (Cost basis)	30,934,245	1,179,682	129,898,527	647,937	954,271	84,302,121	248,916,783

The work in progress relates to ongoing projects the main project being the Olkaria V power plant project.

Notes to the Financial Statements *(continued)*

12. Property plant and equipment (continued)

Plant and machinery was revalued by independent valuer Aon Global Risk, as at 30 June 2015, on a depreciated replacement cost basis which represents the plant and machinery's highest and best use. The land and buildings were valued by Gimco Limited as at 31 December 2013.

The Company's freehold and leasehold land is located in the following locations:

- Olkaria
- Gitaru
- Kiambere
- Kamburu
- Kindaruma
- Masinga
- Sangoro
- Turkwel
- Sosiani
- Gogo
- Wanjii
- Tana
- Sagana
- Ndula
- Mesco
- Garissa
- Lamu
- Kipevu
- ondu Miriu

If the freehold land, buildings and plant and machinery were stated on the historical cost basis, the amounts would be as follows:

	Freehold land and buildings Shs'000	Transmission lines Shs'000	Plant and machinery Shs'000	Total Shs'000
At 30 June 2017				
At cost	41,246,534	3,002,834	168,028,183	212,277,551
Accumulated depreciation	(11,213,370)	(1,666,868)	(33,055,776)	(45,936,014)
	30,033,164	1,335,966	134,972,407	166,341,537
At 30 June 2018				
At cost	43,483,187	3,033,780	168,481,838	214,998,805
Accumulated depreciation	(12,548,942)	(1,854,098)	(38,583,311)	(52,986,351)
	30,934,245	1,179,682	129,898,527	162,012,454

Impairment

At each reporting date, the Directors review the carrying amount of its property plant and equipment to determine whether there are any indicators of impairment. If any such indication exists, an impairment assessment is performed. Cash generating units (CGUs) are determined as per the power plants based on the power purchase agreements. The recoverable amount of the (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management and power purchase agreements.

12. Property plant and equipment (continued)

Impairment of the Olkaria I plant

In the year ended 30 June 2017, management made an assessment of impairment on the Olkaria 1 Plant. As per the accounting policy, Directors review the carrying amount of its property plant and equipment to determine whether there are any indicators of impairment.

Olkaria I was assessed as having impairment indicators due to the following;

1) Evidence of obsolescence or physical damage to an asset - turbine 3 was out of operation for over 1 year

2) Internal reporting indicating the economic performance of an asset is, or will be, worse than expected.

The recoverable amount of the Olkaria 1 was determined as at 30 June 2017 based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by the management and the signed Power purchase agreements covering the estimated useful life and contracted period of twenty five years.

The following table sets out the key assumptions used by management in the value in use calculations:

Assumption: approach used to determine values

Pre-tax discount rate	Based on specific risks relating to the industry and country. Factors considered for the industry include majorly the regulatory environment.
Long term escalable rate	This is the rate used to extrapolate cash flows beyond the budget period. The rate is based on the long-term increase in inflation rate as per the power purchase agreements.
Annual capital expenditure	Expected cash costs in the CGUs. This is based on the historical experience of management, the planned maintenance of the power plants, or sustaining expenditure. No incremental revenue or cost savings are assumed in the value-in-use model because of this expenditure.
Earnings before interest, tax, depreciation and amortisation (EBITDA) margin	This is based on past performance and management expectations of future performance.

Based on the above assumptions, the carrying amount exceeded the recoverable value of the Olkaria 1 as at 30 June 2017 by 708,623,000 hence an impairment was recognised in the books.

For the year ended 30 June 2018 there has been no plants with impairment indicators and hence no impairment has been recognised in the period.

Notes to the Financial Statements *(continued)*

13. Leasehold land

This relates to leases on land that is under use by the Company countrywide mainly hosting power plants. The leases carry different lease periods and lease amounts, depending on when the land was leased.

The land is leased from the Government of Kenya and other Government Agencies under renewable leases. The lease periods range from between 50 years to 99 years. Leases are renewed as they expire. Where leases have expired in the past, all have been renewed without any complications and no renewal complications are expected in the foreseeable future.

	2018 Shs'000	2017 Shs'000
Cost		
At start of year	4,338,677	4,200,947
Additions	-	137,730
At end year	4,338,677	4,338,677
Amortisation		
At start of year	108,894	50,274
Amortisation for the year (Note 8)	59,600	58,620
At end of year	168,494	108,894
Net book value		
At end of year	4,170,183	4,229,783

The Company's leasehold land was revalued on 30 June 2015 by Gimco Limited, a firm of an independent valuer, on the existing market value basis.

If the long term leasehold land was stated on the historical cost basis, the amounts would be as follows:

	2018 Shs'000	2017 Shs'000
Cost	1,833,475	1,971,205
Accumulated amortisation	(100,913)	(99,933)
Net book value	1,732,562	1,871,272

14. Intangible assets

	2018 Shs'000	2017 Shs'000
Cost		
At start of year	1,595,574	1,388,108
Additions	240,500	207,466
At end of year	1,836,074	1,595,574
Amortisation		
At start of year	278,508	206,867
Charge for the year	79,875	71,641
	358,383	278,508
At end of year	1,477,691	1,317,066

Intangible assets relate to costs incurred towards the installation of software and related operating systems mainly SCADA. Amortisation has been charged on these assets from the time they became available for use. The SCADA was revalued by independent valuer Aon Global Risk, as at 30 June 2015, on the basis of depreciated replacement costs taking into account its expected useful life.

If the intangible assets were stated on the historical cost basis, the amounts would be as follows:

	2018 Shs'000	2017 Shs'000
Cost	1,405,923	1,594,099
Accumulated depreciation	(410,853)	(402,618)
Net book amount	995,070	1,191,481

15. Related parties

The Company is 70% owned by the Government of Kenya. The remaining 30% of the shares are widely held by the public. In line with the exemptions by IAS 24, and by virtue that the Company is majority owned by the government, we do not consider as related parties: providers of finance, trade unions, public utilities and any agencies, departments of the government of Kenya, any state corporations or other state or county entities that do not control, jointly control or significantly influence the reporting entity.

The Company's main related parties include Government of Kenya - Ministry of Energy, Kenya Power and Lighting Company (Kenya Power) and Geothermal Development Company Limited (GDC).

Kenya Power is the authorised electricity distributor in Kenya with its majority shareholder being the Government of Kenya. GDC is wholly owned by the Government of Kenya and its principal activities are the development of geothermal resources in Kenya through surface exploration and drilling for steam and to avail steam power to developers for electricity generation.

Notes to the Financial Statements *(continued)*

15. Related parties (continued)

(a) Kenya Power and Lighting Company

(i) The following amounts due from Kenya Power relate to outstanding balances at year end billed as per the respective PPA's. It also includes current portion of deferred debt.

	2018 Shs'000	2017 Shs'000
Due from Kenya Power and Lighting Company	22,007,634	15,876,133
Less; Provision for impairment debt on Kenya Power	(164,676)	(164,676)
Due from Kenya Power and Lighting Company – deferred debt (Note 15 (a (iii))	40,321	40,480
	21,883,279	15,751,937

The impairment on the Kenya Power receivables was assessed based on the incurred loss model. Individual receivables which were known to be impaired were written off by reducing the carrying amount directly.

(ii)The following amounts are due to Kenya Power relate to outstanding balances at year end for sale of electricity.

	2018 Shs'000	2017 Shs'000
Trade payables	5,292	1,290

(iii) Deferred debt due from Kenya Power

Deferred debt relates to the amounts recoverable from Kenya Power in respect of a loan taken out by the Company for the construction of the Sondu Miriu project implemented by the Company on behalf of Kenya Power and Lighting Company under a management agreement. Japan Bank for International Corporation funded the foreign component of the Sondu Miriu project under the loan agreement between the Japan Bank for International Corporation and the Company. The debt is payable over a period of 30 years commencing 15 August 2014. The effective interest rate in Japanese Yen on the deferred debt during the year was 0.75% (2017: 0.75%).

The deferred debt and corresponding loan from Japan Bank for International Corporation are both denominated in Japanese Yen (JPY). The amount outstanding as at year end was JPY 1,122,011,280 (2017: JPY 1,166,011,722). The deferred debt due from Kenya Power at end of year is as follows:

	2018 Shs'000	2017 Shs'000
Current portion	40,321	40,480
Non-current portion	987,875	1,032,014
	1,028,196	1,072,494

15. Related parties (continued)

(a) Kenya Power and Lighting Company (continued)

(iv) During the year the following transactions were carried out with Kenya Power

	2018 Shs'000	2017 Shs'000
Electricity sales	29,285,691	29,006,622
Steam revenue	6,222,057	5,189,072
Fuel charges billed	9,622,740	9,069,403
Water charges billed	159,172	166,822
Interest income on amounts due	1,015,183	312,761
Realised foreign exchange loss billed-borrowings	948,576	532,206
Realised foreign exchange loss billed-others	667,772	362,203
	47,921,191	44,639,089
Electricity purchases from Kenya Power	253,225	215,314

The sales to Kenya Power are made in accordance with the signed Power Purchase Agreements whereas the purchases from Kenya Power are made at normal market prices. Outstanding balances at end of year are unsecured and have credit period of 40 days.

(b) Geothermal Development Company Limited (GDC)

Geothermal Development Company Limited is wholly owned by the Government of Kenya and its principal activities are the development of geothermal resources in Kenya through surface exploration and drilling for steam and to avail steam power to developers for electricity generation.

		2018 Shs'000	2017 Shs'000
(i)	Amount due to GDC (included in trade payables)	1,845,834	847,687
(ii)	Steam purchases	3,549,428	2,795,798

(c) Staff advances

	2018	2017
Amounts due from staff	65,975	94,432

Notes to the Financial Statements *(continued)*

15. Related parties (continued)

(d) Director and key management compensation

	2018 Shs'000	2017 Shs'000
Fees for services as a Director		
Non-Executive Directors	6,000	6,000
Other emoluments:		
Salaries and other short-term employment benefits:		
Key Management (Divisional Directors)	105,394	108,504
Managing Director & CEO	14,746	23,703
Other allowances:		
Non-Executive Directors	15,640	14,960
Leave accrual – Managing Director & CEO	757	2,940
Total other emoluments	136,537	150,107
Total fees and other emoluments	142,537	156,107

(e) Amount due from Rural Electrification Authority (REA)

	2018 Shs'000	2017 Shs'000
Amounts due from REA	32,321	72,599

The amount due from REA relates to the disposal of Lamu generators after the connection of the area to the National grid.

16. Financial asset at fair value

The financial asset through profit or loss relates to unrealised exchange differences on foreign denominated borrowings recoverable from Kenya Power under the respective Power Purchase Agreements ("PPAs") with Kenya Power. The derivative financial instrument is entered into to manage foreign exchange borrowings exposures. The PPA provide that the amounts should be billed to Kenya Power as the related borrowings are repaid. This allows the Company to bill and recover all realised foreign currency fluctuations relative to the base rates allowed by the PPA. The amount in the statement of financial position relates to fair value of the financial asset.

16. Financial asset at fair value (continued)

The movement in the financial asset during the year is as follows:

	2018 Shs'000	2017 Shs'000
At start of the year	14,005,833	14,588,582
Realised foreign exchange loss billed - borrowings (Note 15 (a) (iv))	(948,576)	(532,206)
Fair value loss on revaluation of the financial asset at fair value through profit or loss	(1,751,161)	(50,543)
At end of the year	11,306,096	14,005,833
Less: current portion recoverable within one year	(815,682)	(888,457)
	10,490,414	13,117,376

17. Treasury bonds

	2018 Shs'000	2017 Shs'000
Available-for-sale treasury bonds carried at fair value	349,690	344,603
Held-to-maturity treasury bonds carried at amortised cost	2,407,047	2,414,108
	2,756,737	2,758,711
Maturity analysis of treasury bonds		
- Within one year(current)	349,690	344,603
- After five years (long term)	2,407,047	2,414,108
	2,756,737	2,758,711
Weighted average interest rate	11.25%	11.25%

Notes to the Financial Statements *(continued)*

17. Treasury bonds (continued)

Movement in treasury bonds

	Available-for-sale Shs'000	Held-to-maturity Shs'000	Total Shs'000
30 June 2018			
At start of year	344,603	2,414,108	2,758,711
Fair value gain	5,087	-	5,087
Amortization	-	(7,061)	(7,061)
At end of year	349,690	2,407,047	2,756,737
30 June 2017			
At start of year	322,031	2,420,560	2,742,591
Fair value gain	22,572	-	22,572
Amortization	-	(6,452)	(6,452)
At end of year	344,603	2,414,108	2,758,711

18. Inventory

	2018 Shs'000	2017 Shs'000
Inventory	1,678,697	1,614,256
Provision for impairment	(529,517)	(532,212)
	1,149,180	1,082,044
Inventory items consist of the following;		
Fuel and lubricants	486,430	456,274
General stores	161,525	152,400
Machinery consumable spares	1,030,742	1,005,582
	1,678,697	1,614,256

The cost of inventories recognised as an expense and included in operating costs are: machinery consumable spares amounting to Shs 335,647,070 (2017: Shs 308,096,523) and fuel consumed amounting to Shs 9,246,855,049 (2017: Shs 8,812,614,218). Provision for inventory is recognised on items that are obsolete.

19. Other receivables and prepayments

	2018 Shs'000	2017 Shs'000
Other receivables	1,624,405	1,658,361
Less; Provision for impairment losses on other receivables	(674,317)	(674,317)
Prepayments*	2,343,730	2,662,749
Staff receivables	65,975	94,432
	3,359,793	3,741,225

As shown below there has been no movement in the provisions in other receivables

	2018 Shs'000	2017 Shs'000
At the beginning of the year	674,317	245,707
Additional provisions in the year	-	428,610
At the end of the year	674,317	674,317

In the prior year, the impairment of other receivables was assessed based on the incurred loss model. Individual receivables which were known to be impaired were written off by reducing the carrying amount directly.

*Included in prepayments is an amount of Shs 2,141,000,000 (2017: Shs 2, 337,000,000 relating to advances to Contractors for Olkaria V project and other ongoing projects.

20. Cash and bank balances

	2018 Shs'000	2017 Shs'000
Cash at Bank	3,379,102	4,826,763
Cash at hand	4,300	4,340
Short term deposits	-	3,000,000
	3,383,402	7,831,103

Notes to the Financial Statements *(continued)*

21. Ordinary share capital and share premium

Ordinary share capital and share premium	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000
Authorised			
At 1 July 2016, 30 June 2017 and 30 June 2018	10,000,000	25,000,000	-
Issued			
At 1 July 2016	6,243,874	15,609,684	21,056,341
Rights issue	350,648	878,026	1,094,790
At 30 June 2017 and 30 June 2018	**6,594,522**	**16,487,710**	**22,151,131**

The total authorised number of ordinary shares is 10,000,000,000 with a par value of Shs 2.50 per share. All issued shares are fully paid. On 28 March 2017 additional shares were issued at Shs 6.55 per ordinary share under a rights issue.

Dividends

The directors propose payment of a first and final dividend of Shs 0.40 per share amounting to Shs 2,637,809,000 (2017: nil)

22. Other reserves- Restated*

	Capital reserve Shs'000	Investments revaluation reserve Shs'000	Property revaluation reserve Shs'000	Actuarial gains/(losses) Shs'000	Total Shs'000
As at 1 July 2016 - As previously reported	8,579,722	(101,260)	68,002,016	1,060,125	77,540,603
Restatement*	-	-	-	(292,216)	(292,216)
As restated	8,579,722	(101,260)	68,002,016	767,909	77,248,387
Other comprehensive income for the year					
-revaluation of available for sale bonds	-	22,572	-	-	22,572
-re-measurement of defined benefit	-	-	-	(78,623)	(78,623)
-deferred tax on re-measurement	-	-	-	23,587	23,587
Total comprehensive income for the year	-	22,572	-	(55,036)	(32,464)
Transfer of excess depreciation	-	-	(3,045,117)	-	(3,045,117)
Impairment			(708,623)	-	(708,623)
Deferred tax on impairment			212,587	-	212,587
Deferred tax on excess depreciation	-	-	913,535	-	913,535
At 30 June 2017	8,579,722	(78,688)	65,374,398	712,873	74,588,305

*Refer to note 37 for details

22. Other reserves- Restated* (continued)

	Capital reserve Shs'000	Investments revaluation reserve Shs'000	Property revaluation reserve Shs'000	Actuarial gains/(losses) Shs'000	Total Shs'000
At 1 July 2017 - As previously reported	8,579,722	(78,688)	65,374,398	923,745	74,799,177
Restatement*	-	-	-	(210,872)	(210,872)
As restated	8,579,722	(78,688)	65,374,398	712,873	74,588,305
Other comprehensive income for the year;					
-revaluation of available for sale bonds	-	5,087	-	-	5,087
-re-measurement of defined benefit	-	-	-	(897,155)	(897,155)
-deferred tax on re-measurement	-	-	-	269,147	269,147
Total comprehensive income for the year	-	5,087	-	(628,008)	(622,921)
Transfer of excess depreciation	-	-	(3,084,843)	-	(3,084,843)
Deferred tax on excess depreciation	-	-	925,453	-	925,453
At 30 June 2018	8,579,722	(73,601)	63,215,008	84,865	71,805,994

*Refer to note 37 for details

22. Other reserves (continued)

(a) The capital reserve relates to development surcharge received from Kenya Power for financing the development of certain power projects for the period on or before 1997. The reserve is not distributable to shareholders.

(b) The investments revaluation reserve represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of. The reserve is not distributable to shareholders.

(c) The property, plant and equipment revaluation reserve arises on the revaluation of plant and machinery. When revalued property, plant and equipment are disposed, the portion of the plant and machinery revaluation reserve that relates to that asset is transferred directly to retained earnings. The reserve is not distributable to shareholders.

(d) Actuarial reserves represents the accumulated remeasurements arising from the retirement benefit scheme recognised through other comprehensive income as disclosed under Note 25. The reserve is not distributable to shareholders.

23. Borrowings

(a) Analysis of interest bearing borrowings:

	Maturity Year	2018 Shs'000	2017 Shs'000
Government of Kenya Guaranteed			
2.6% Japan Bank for International Cooperation KE P20-Kipevu I (JPY 2,977,212,000)	2025	2,728,278	3,129,635
2.3% Japan Bank for International Cooperation KE P21 –Sondu Miriu (JPY 3,043,746,000)	2027	2,789,249	3,110,698
0.75% Japan Bank for International Cooperation KE P23-Sondu Miriu (JPY 8,996,780,001)	2044	8,244,532	8,593,489
0.75% Japan Bank for International Cooperation KE P24-Sangoro (JPY 4,105,588,000)	2047	3,762,307	3,906,525
0.20% Japan International Cooperation Agency KE P26-Olkaria I & IV (JPY19,502,031,946)	2040	17,871,410	17,928,735
2.09% Kreditanstalt Fur Wiederaufbau (KfW)-Kindaruma (Euro 23,459,999.90)	2024	2,741,470	3,238,167
2.2% Kreditanstalt Fur Wiederaufbau (KfW)-Olkaria I & IV (Euro 36,348,308)	2026	4,247,561	4,874,958

Notes to the Financial Statements *(continued)*

23. Borrowings (continued)

(a) Analysis of interest bearing borrowings (continued)

On lent	Maturity Year	2018 Shs'000	2017 Shs'000
3.5% International Development Association IDA 4743 KE-Olkaria I & IV (USD 31,586,961.32)	2035	3,191,862	3,815,260
2.003% Agence Francaise de Development (AFD) - Olkaria I & IV (EURO 78,276,001.61)	2031	9,147,114	9,946,889
3.884% European Investment Bank-Olkaria I & IV (Euro 5,374,808.93)	2037	628,085	670,271
2.50% Export-Import Bank of China (EXIM) – 89 wells(USD382,499,999.98)	2033	38,651,626	37,569,803
1.50% Spanish loan-Ngong Phase II - 13.6MW (Euro 19,993,617)	2030	2,336,398	2,365,461
3.20% KBC Ngong I Phase 11 - 6.8 MW (Euro 411,608.39)	2020	48,099	73,047
0.50% National Bank of Belgium (NBB) Ngong I Phase 11 - 6.8 MW (Euro 6,078,000)	2043	710,258	719,093
3.5% International Development Association IDA 5844-KE Olkaria I& IV (USD 52,703,852.24)	2041	5,325,724	5,498,796
0.20% Japan International Cooperation Agency Loan (KE-P31) Olkaria V (JPY 4,758,273,374)	2046	4,360,420	1,618,000

On lent facilities are entered into by the Government of Kenya with Development Finance Institutions (DFIs) and subsequently cascaded down to the Company through subsidiary loan agreements.

Direct borrowings	Maturity Year	2018 Shs'000	2017 Shs'000
2.68% Agence Francaise de Developpement (AFD)- Olkaria II Unit 3 (Euro 10,000,000)	2024	1,168,572	1,380,293
5.1% HSBC Bank Loan-Rigs (USD 20,274,519.72)	2024	2,048,740	2,453,156
12.5% Public Infrastructure Bond –Various projects(Shs)	2019	4,687,500	7,658,089
Standard Chartered Bank loan-Olkaria II Unit 3 (USD 19,459,445.45)	2021	1,966,377	2,690,896
CBA Term loan - Wellheads 75MW (USD 93,208,398.73)	2027	9,418,709	10,371,170
Cooperative Bank Term Loan (Shs)	2022	4,666,667	5,833,333
		130,740,958	137,445,764
Accrued interest		1,167,411	1,268,324
		131,908,369	138,714,088
Total borrowings		131,908,369	138,714,088
Less: Amounts due within 12 months		(10,620,761)	(10,829,802)
Non-current borrowings		121,287,608	127,884,286

23. Borrowings (continued)

	2018 Shs'000	2017 Shs'000
(b) Borrowings maturity analysis:		
Due within 1 year	10,620,761	10,829,802
Due between 1 and 2 years	11,094,032	11,573,732
Due between 2 and 5 years	23,947,980	24,063,838
Due after 5 years	86,245,596	92,246,716
	131,908,369	138,714,088
(c) Analysis of loans by currency:		
Borrowings in US$	60,603,038	62,399,083
Borrowings in JPY	39,756,196	38,287,082
Borrowings in EUR	21,027,558	23,268,177
Borrowings in Shs	10,521,577	14,759,746
Total	131,908,369	138,714,088
(d) The movement in borrowings is as follows:		
At start of year	137,445,764	135,151,686
Received in the year	4,948,566	11,848,974
Repaid in the year	(8,953,636)	(8,972,147)
Realised exchange gains	(851,695)	(491,581)
Unrealised exchange gains in the year	(1,848,041)	(91,168)
	130,740,958	137,445,764
Add: accrued interest	1,167,411	1,268,324
At end of year	131,908,369	138,714,088

Securities:

The Government of Kenya has issued guarantees to the lenders in relation to the guaranteed and the on-lent borrowings.

The securities held for the Agence Francaise de Developpement borrowings are a fixed charge over all rights, title and interest of the Company in and to (a) all the land, (b) all the real property including power plant buildings and structure at the Olkaria II geothermal power plant, a fixed charge over the plant, machinery and other infrastructure at the Olkaria II geothermal power plant and an assignment of the benefits of proceeds of insurance in connection with the project.

The Public Infrastructure Bond is unsecured. Other direct borrowings are secured by a letter of negative pledge from the Company.

Notes to the Financial Statements *(continued)*

23. Borrowings (continued)

(e) World Bank financing credit line

(a) Designated Account B

The Company received financial support from the World Bank Credit No. 4743-dated 1 October 2010 and additional credit No. 5844 KE dated 20 September 2016 to support implementation of projects under Part A of the Kenya Electricity Expansion Project (KEEP), namely Geothermal Generation. A portion of this is disbursed directly into a US Dollar denominated Designated Account B operated by the Company and summary information on transactions during the year is as follows:

	2018 Shs'000	2017 Shs'000
Balance at the beginning of the year	-	302,215
Amounts received during the year	-	2,679,810
Amount to be transferred to WB	31,917	-
Net interest expense	-	(230)
Transfers to project account	-	(2,981,795)
Balance at the end of the year	31,917	-

The total amounts advanced are included in borrowings. The cash balance above is included in cash and cash equivalents. The funds are held in a World Bank funded designated Account No. 0810296571876 held at Equity Bank Limited.

b) Project account

	2018 Shs'000	2017 Shs'000
Balance at the beginning of the year	1,155,488	507,815
Amounts received during the year	-	2,981,795
Amounts transferred to Kenya Power	(335,460)	-
Amounts transferred to designated account 5844E	(31,917)	-
Net interest income/expense	29,252	27,580
Payments to contractors	(659,962)	(2,361,702)
Balance at the end of the year	157,401	1,155,488

The closing balance shown above is included in cash and cash equivalents and represent balances outstanding on the World Bank funded project Account No. 6563380114 held at the Commercial Bank of Africa.

24. Lease commitments

As lessee

The future rental payments under operating leases are as shown below:

	2018 Shs'000	2017 Shs'000
Within 1 year	116,393	114,967
After 1 year but not later than 5 years	320,324	441,986
	436,717	556,953

The Company has entered into commercial leases on premises. These leases have an average life of between three and five years.

25. Retirement benefits – Restated*

The Company operated a joint defined benefit scheme with Kenya Power, which was funded by contributions from both the Company and employees up to 31 December 1999.

The Company registered its own defined benefits scheme in 2000 and commenced making contributions to the scheme, alongside employees' contributions, with effect from 1 January 2000. The scheme is administered by Zamara Limited while British-American Asset Managers and Co-op trust Investment Services Ltd act as Investment Managers for the Scheme.

Under the plan, the employees are entitled to retirement benefits of 3% of final pensionable emoluments for pensionable service up to 1 January 2000 and 2% of final pensionable emoluments for pensionable service after 1 January 2000 on attainment of a retirement age of 60 years. No other post-retirement benefits are provided to these employees.

The KenGen Staff Retirement Benefits Scheme (DB Scheme) is established under trust and was closed to new entrants and to future accrual of benefits with effect from 31 December 2011 in respect of members aged below 45 years. A new Defined Contribution Scheme, the KenGen Defined Contribution (DC Scheme) 2012 was established effective 1 January 2012, for all new eligible employees. All active in service members aged 45 years and over as at 31 December 2011 had an option to either remain in the DB scheme for future benefit accrual or join the new DC scheme. Some members have opted to join the new DC scheme for future benefit accrual while others opted to remain in the DB scheme. The DC scheme is administered by Zamara Limited while Stanlib Ltd and Old Mutual act as Investment Managers for the Scheme. The Company therefore only makes contributions to the DB scheme in respect of those members who opted to remain in the DB scheme. DB scheme member contributions are a fixed percentage of their basic pay with the Company responsible for the balance of the contributions.

** Refer to note 37 for details*

Notes to the Financial Statements *(continued)*

25. Retirement benefits- Restated* (continued)

A valuation of plan assets and the present value of the defined benefit obligation were carried out by Zamara Limited for statutory purposes. An actuarial valuation to fulfill the financial reporting and disclosure requirements of IAS19 was also carried out as at 30 June 2018. On this basis, the present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2018	2017
Discount rate(s) [1]	13.30%	13.90%
Future salary increases	8%	8%
Future pension increases	0%	0%
Mortality (pre-retirement)	A 1949-1952	A 1949-1952
Withdrawals	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Ill health	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Retirement age	60 years	60 years

[1] The discount rate is determined by using a government bond of the same currency and estimated time period as the employment benefit obligation.

** Refer to note 37 for details*

25. Retirement benefits- Restated* (continued)

Recognition

The amount recognized in the statement of profit or loss and other comprehensive income and statement of financial position in respect of these defined benefit plan are as shown below:

(a) Amount recognised in the statement of profit or loss and other comprehensive Income

The amount recognized in the statement of profit or loss and other comprehensive income in respect of these defined benefit plan are as follows:

	2018 Shs'000	2017 Shs'000
(i) Statement of profit or loss		
Service Cost:		
Current service cost (employer)	(105,437)	(78,865)
Interest income/(cost):		
Interest cost on defined benefit obligation	(811,011)	(749,483)
Interest income on plan assets	1,029,210	976,119
Interest income on the effect of the asset ceiling	(64,908)	-
Net interest income as previously stated	-	226,636
Restatement* - Interest effect of the asset ceiling	-	(72,736)
As restated	153,291	153,900
Total included in profit or (loss) in respect of scheme	47,854	75,035
(ii) Other comprehensive income (OCI)		
Actuarial loss due to change in financial assumptions	(227,633)	(186,815)
Return on plan assets	(876,124)	(8,013)
Change in effect of asset ceiling (excluding amount in interest cost)	206,602	-
As previously stated	-	(194,828)
Restatement*- Change in effect of asset ceiling	-	116,205
As restated Amount recognized in OCI	(897,155)	(78,623)

Refer to Note 37 for details

25. Retirement benefits- Restated* (continued)

(b) Amount recognised in the statement of financial position

The amount included in the statement of financial position arising from the entity's obligation in respect of its defined benefit plans is as follows:

	2018 Shs'000	Restated* 2017 Shs'000
Present value of funded defined benefit obligation	(6,691,147)	(6,016,713)
Fair value of plan assets	7,341,682	7,620,177
Effect of asset ceiling	(325,267)	-
As previously stated - Present value of unfunded defined benefit asset	-	1,603,464
Restatement* - Effect of asset ceiling	-	(466,961)
Restated	325,268	1,136,503

The reconciliation of the effect of asset ceiling is as follows:

	2018 Shs'000	Restated* 2017 Shs'000
Effect of asset ceiling	(466,961)	(510,450)
Interest effect of the asset ceiling	(64,909)	(72,736)
Change in the effect of the asset ceiling (OCI)	206,602	116,205
Effect of asset ceiling at end of the period	(325,268)	(466,961)

The reconciliation of the amount included in the statement of financial position is as follows:

	2018 Shs'000	2017 Shs'000
Net asset at the start of the period - restated	1,136,503	1,609,201
Net expense recognized in the income statement	47,854	147,771
Employer contributions	38,066	41,320
Amount recognized in other comprehensive income	(897,155)	(194,828)
As previously stated	-	1,603,464
Restatement*	-	(466,961)
Restated	325,268	1,136,503

**Refer to Note 37 for details*

25. Retirement benefits- Restated* (continued)

(b) Amount recognised in the statement of financial position (continued)

Movements in the present value of the defined benefit obligation in the current year were as follows:

	2018 Shs'000	2017 Shs'000
Opening benefit obligation	(6,016,713)	(5,438,642)
Current service cost	(105,437)	(78,865)
Interest cost	(811,011)	(749,483)
Employee contributions	(19,033)	(20,674)
Actuarial loss due to change in financial assumptions	(227,633)	(126,180)
Actuarial loss on Experience	-	(60,635)
Benefits paid	488,680	457,766
Closing defined benefit obligation	(6,691,147)	(6,016,713)

Movements in the present value of the plan assets in the current year were as follows:

	2018 Shs'000	2017 Shs'000
Opening market value of assets	7,620,177	7,047,843
Interest income on plan assets	1,029,210	976,119
Employer contributions	38,066	41,320
Employee contributions	19,033	20,674
Return on plan assets	(876,124)	(8,013)
Benefits paid	(488,680)	(457,766)
Closing fair value of plan assets	7,341,682	7,620,177

** Refer to note 37 for details*

25. Retirement benefits- Restated* (continued)

(b) Amount recognised in the statement of financial position (continued)

The fair values of the plan assets at the end of the reporting period for each category are as follows:

	2018 Shs'000	2017 Shs'000
Property investments	4,813,470	5,166,255
Quoted equity instruments	795,452	536,562
Offshore investments	-	52,968
Government securities	1,339,620	1,371,675
Commercial paper and corporate bonds	176,724	292,494
Cash & short term deposits	216,416	200,223
Total scheme assets	7,341,682	7,620,177

(c) Sensitivity analysis

The sensitivity of the defined benefit obligation to changes in the principal assumptions is:

	2018	Change in assumption	Impact on defined benefit obligation
Discount rate	13.30%	Decrease 1%	Increase in the present value of obligation by Shs 507,300,000
Salary	8%	Decrease 1%	Reduction in the present value of obligation by Shs 146,647,000
Retirement age	60	Reduction 5yrs	Increase in the present value of obligation by Shs 999,053,000
Age Rating*	N/A	Reduction 5%	Increase in the present value of obligation by Shs 201,453,000

**Assuming the membership was 5 years younger*

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit asset recognised in the balance sheet.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

** Refer to note 37 for details*

26. Deferred income tax – Restated*

Deferred income taxes are calculated on all temporary differences under the liability method using the applicable rate, currently at 30%.The makeup of the deferred tax liabilities in the year and the movement on the deferred tax account during the year are presented below:

Year ended 30 June 2017	2016 Shs'000	Charged / (Credited) to P/L Shs'000	Charged / (Credited) to OCI Shs'000	2017 Shs'000
Deferred tax assets:				
Tax losses	(21,152,645)	465,922	-	(20,686,723)
Provisions and other temporary differences	(156,471)	(82,497)	-	(238,968)
	(21,309,116)	383,425	-	(20,925,691)
Deferred tax liabilities:				
Unrealized exchange gains and losses	76,555	(104,566)	-	(28,011)
Defined benefit				
– As previously stated	482,760	269,315	(58,448)	693,627
– Restatement*	(153,129)	(21,821)	34,861	(140,089)
– As restated	329,631	247,494	(23,587)	553,538
Revaluation surplus property plant and equipment	29,143,721	(1,126,122)	(212,588)	27,805,011
Accelerated capital allowances	31,832,938	2,818,797	-	34,651,735
	61,382,845	1,835,603	(236,175)	62,982,273
Net deferred tax liability	40,073,729	2,219,028	(236,175)	42,056,582

**Refer to Note 37 for details*

26. Deferred income tax – Restated* (continued)

Year ended 30 June 2018	2017 Shs'000	Charged / (Credited) to P/L Shs'000	Charged / (Credited) to OCI Shs'000	2018 Shs'000
Deferred tax assets:				
Tax losses	(20,686,723)	5,048,032	-	(15,638,691)
Provisions and other temporary differences	(238,968)	(268,082)	-	(507,050)
	(20,925,691)	4,779,950	-	(16,145,741)
Deferred tax liabilities:				
Unrealized exchange gain	(28,011)	85,863	-	57,852
Defined benefit – restated*	340,950	25,777	(269,147)	97,580
Revaluation surplus	28,017,599	(925,453)		27,092,146
Accelerated capital allowances	34,651,735	(257,536)	-	34,394,199
	62,982,273	(1,071,349)	(269,147)	61,641,777
Net deferred tax liability	42,056,582	3,708,601	(269,147)	45,496,036

** Refer to note 37 for details*

27. Trade and other payables

	2018 Shs'000	2017 Shs'000
Trade payables	3,815,172	3,767,546
Due to Kenya Power (note 15 (a)(ii))	5,292	1,290
Contract and Retention money	2,104,244	4,197,999
Sundry Creditors accruals	3,545,249	2,474,902
Other accrued expenses	43,996	189,782
Total trade and other payables	9,513,953	10,631,519
Non-current trade and other payables	(1,586,258)	(3,859,604)
Current trade and other payables	7,927,695	6,771,915

* Contract and retention money relate to payments due to contractors for the ongoing construction of long-term assets. They are financed by the Development Finance Institutions (DFIs) and include invoices that were under verification at the reporting dates.

28. Compensating tax

	2018 Shs'000	2017 Shs'000
As at 1 July	2,431,022	2,431,022
Paid during the year	(100,000)	-
At end of year	2,331,022	2,431,022

The provision relates to amounts payable in relation to Compensating tax on dividends. The amounts were assessed in the Company following the payment of dividends in 2016. The Company has significant tax losses arising from investment deductions granted on its projects and therefore insufficient current tax credits to cover for the dividend tax account.

During the financial year the Company paid Kshs100, 000,000. The payment terms for the balance of the principal amounts outstanding are being discussed with the relevant authorities.

29. Non – current assets held for sale

	2018 Shs'000	2017 Shs'000
Non – current assets held for sale held for sale	344,053	-

The assets held for sale include plant assets held at the Garissa plant. The Company, in 2016, decommissioned the Garissa power station after the region was connected to the National Electricity Grid. The Company has initiated a plan to dispose of the assets to a third party and the sale expected within the 2018 financial year.

Notes to the Financial Statements *(continued)*

30. Notes to the statement of cash flows

(a) Reconciliation of operating profit to cash generated from operations

	2018 Shs'000	2017 Shs'000
Profit before taxation	11,745,467	11,461,188
Adjustments for:		
Depreciation (Note 8 (c))	10,013,948	9,119,698
Prepaid lease expense (Note 8 (c))	54,063	53,083
Amortisation of intangible assets (Note 8 (c))	79,875	71,641
Finance income (Note 7)	(3,341,383)	(1,333,325)
Finance cost (Note 9)	3,037,554	3,417,442
Net exchange differences on borrowings and cash	1,819,476	89,057
Gain on disposal of assets (Note 5)	(951)	(15,814)
Unrealised foreign exchange loss/repayment related to amount due from Kenya Power -deferred debt	(35,164)	281,119
Net loss on de-recognition of treasury bonds (Note 17)	5,087	22,572
Amortisation of held-to-maturity treasury bonds (Note 6)	7,061	6,452
Changes in the retirement benefit asset	(85,920)	(116,355)
Operating profit before working capital changes	23,299,115	23,056,758
Changes in working capital:		
Increase in inventories (note 18)	(67,136)	(215,346)
Increase in trade receivables (note 15)	(5,116,159)	(6,091,765)
Decrease/(increase) in financial asset (note 16)	72,775	(190,228)
Decrease in other receivables (note 19)	381,432	184,501
Decrease in trade and other payables (note 27)	(1,117,566)	(4,252,041)
Cash generated from operations	17,452,461	12,491,879
(b) Movement in finance income		
At start of year	27,089	40,775
Interest income	1,493,342	1,242,157
Finance income received	(491,039)	(943,082)
Accrued interest from Kenya Power	(1,015,183)	(312,761)
At end of year	14,209	27,089
(c) Movement in interest payable		
At start of year	1,268,324	1,754,325
Interest expense	3,037,554	3,417,442
Interest paid	(3,138,467)	(3,903,443)
At end of year (Note 23(a))	1,167,411	1,268,324

30. Notes to the statement of cash flows

(d) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	2018 Shs'000	2017 Shs'000
Cash and cash equivalents	3,383,402	7,831,103
Borrowings repayable within one year	(10,620,761)	(10,829,802)
Borrowings repayable after one year	(121,287,608)	(127,884,286)
Net Debt	(128,524,967)	(130,882,985)

	Cash and cash equivalents Shs'000	Borrowings Shs'000	Net Debt Shs'000
Net debt as 1 July 2016	6,756,324	(135,151,686)	(128,395,362)
Cash flows	1,072,668	-	1,072,668
Received in the year	-	(11,848,974)	(11,848,974)
Repaid in the year	-	8,972,147	8,972,147
Realised exchange loss	-	491,581	491,581
Unrealised exchange gain in the year	2,111	91,168	93,279
Accrued interest		(1,268,324)	(1,268,324)
Net Debt as at 30 June 2017	**7,831,103**	**138,714,088**	**(130,882,985)**
Net debt as 1 July 2017	7,831,103	(137,445,764)	(129,614,661)
Cash flows	(4,476,624)	-	(4,476,264)
Received in the year	-	(4,948,566)	(4,948,566)
Repaid in the year	-	8,953,636	8,953,636
Realised exchange loss	-	851,695	851,695
Unrealised exchange loss in the year	28,563	1,848,041	1,876,604
Accrued interest	-	(1,167,411)	(1,167,411)
Net Debt as at 30 June 2018	**3,383,402**	**(131,908,369)**	**(128,524,967)**

Notes to the Financial Statements *(continued)*

31. Emergency Power Project

The Company manages an Emergency Power Supply project known as Aggreko International Projects as an implementing commissioning agent on behalf of the Ministry of Energy. These funds are held in an escrow bank account at the Commercial Bank of Africa. Movements in the escrow account which is not included in the Company's cash and cash equivalents, are summarised below;

	2018 Shs'000	2017 Shs'000
At start of year	525,600	508,083
Receipts from sale of electricity	-	25,002
Interest income	2,544	4,385
KenGen Management fees	-	(2,281)
Expenditure during the year	(13,406)	(9,589)
At end of year	514,738	525,600

32. Contingent liabilities

I. Letters of credit

Letters of credit signify commitment by the Company to make payments to third parties for contracts entered into, generally relating to foreign payments. Outstanding letters of credit as at 30 June 2018 amounted to Shs 1,447,775,000 (30 June 2017 Shs: 280,727,000)

II. Disputed withholding tax

In 2014, Kenya Revenue Authority (KRA) performed a tax audit for the financial years 2009-2013. Subsequently, KRA issued an assessment of Shs 975,848,686. The Company objected to the assessment and KRA issued a stand over notice pending resolution of matter in dispute. The Company applied for the abandonment of collection of the withholding tax from The National Treasury and Planning. The Company is likely to get the waiver from The National Treasury and Planning as the process of granting the waiver is in final stages with KRA currently preparing their recommendation of the same. In the opinion of the directors, no provision is required in the financial statements as the liability is not expected to crystallize.

III. Compensating tax

In 2016, the Company paid outstanding dividends of Shs 5,735,428,884 to the major shareholder, The National Treasury and Planning, giving rise to a compensating tax obligation of Shs 2,431,022,000. As disclosed in Note 28, no provision has been made with regards to penalty and interest estimated to be Shs 963,305,000 at 30 June 2018 (30 June 2017:Shs 661,328,000).

The Company has applied for abandonment of principal, penalty and interest from the National Treasury and Planning. The Directors are confident of a favorable outcome and therefore are of the opinion no provision is required with regards to interest and penalty.

33. Capital commitments

The capital commitments relates to the ongoing capital projects and new projects which have been approved for implementation but are at various stages of implementation. They are financed by Development Financial Institutions (DFIs) and internal resources. The projects include 165.4MW Olkaria V, 83.3MW Olkaria I Unit 6, Rehabilitation of Olkaria I, Meru Wind 80MW, Ngong Wind phase III and 140MW Olkaria VI to be implemented under Public Private Partnership arrangement.

Capital commitments at the year-end for which no provision has been made in these financial statements are:

	2018 Shs'000	2017 Shs'000
Authorised but not contracted for	88,563,984	116,996,116
Authorised and contracted for	32,612,140	27,662,647
	121,176,124	144,658,763

34. Operating segments

The Company's Board of Directors, which consists of the Managing Director and the Chief Executive Officer and other directors is the Company's Chief Operating Decision Maker (CODM).

In accordance with IFRS 8 - Operating segments, information reported to the CODM for the purposes of resource allocation and assessment of segment performance is focused on the principal activities and the products offered by the Company.

The Company has one reportable segment, which is the electricity generation. In making this consideration, the CODM considers the following:

(a) Reported revenue/ Products and Services

All the primary activities of the Company resulted in the generation of revenue which is the sole product and revenue stream.

(b) Geographical areas

The CODM considered that though there are different plants in different locations, all these plants are based in Kenya and operate effectively within one geographical location (Kenya).

(c) Major customers

The Company operates in a regulated industry. All its revenue as outlined is derived from one single external customer, Kenya Power.

Notes to the Financial Statements *(continued)*

35. Financial risk management

Introduction and overview

The Company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Company's business and the operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance. The key types of risks include:

- Market risk – includes currency, interest rate and other price risk
- Credit risk
- Liquidity risk

The Company's overall risk management programme focuses on the unpredictability of changes in the business environment and seeks to minimise potential adverse effects of such risks on its financial performance within the options available by setting acceptable levels of risks.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's Finance Division identifies, evaluates and hedges financial risks in close cooperation with operating units. The Board provides written principals for overall risk management, as well as written policies covering specific areas such as credit risk, liquidity risk, foreign exchange risk, interest rate risk and price risk.

The Company does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes.

(a) Market risks

The Board has put in place an internal audit function to assist it in assessing the risk faced by the Company on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Overall responsibility for managing market risk rests with the Audit, Risk & Compliance Committee.

The Company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit, Risk & Compliance Management Committee) and for the day to day implementation of those policies.
There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

35. Financial risk management (continued)

(a) Market risks (continued)

Foreign currency risk

The Company has transactional currency exposures. Such exposure arises when borrowings are revalued at the reporting date and also through purchases of goods and services that are done in currencies other than the local currency. The Company has loans from multilateral donors, which are denominated in currencies other than the functional local currency. Loan payments are made by using the prevailing exchange rate as there is no forward currency contracts to eliminate the currency exposures. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities is;

	2018 Shs'000	2017 Shs'000
Financial assets		
Amount due from Kenya Power – Deferred debt (Note 15)	1,028,196	1,072,494
Cash and cash equivalents (Note 20)	2,052,089	707,157
	3,080,285	1,779,651
Liabilities		
Trade and other payables (Note 27)	(2,104,244)	(4,197,999)
Borrowings (Note 23)	(121,386,792)	(123,954,342)
	(123,491,036)	(128,152,341)
Net currency liability	(120,410,751)	(126,372,690)

Exposure to foreign currency risk is mitigated by the terms of the Power Purchase Agreement that allows the Company to recover in full a foreign exchange movement from Kenya Power.

Notes to the Financial Statements *(continued)*

35. Financial risk management (continued)

(a) Market risks (continued)

Foreign currency risk (continued)

Foreign currency sensitivity analysis

The following table demonstrates the effect on the Company's profit or loss on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse is also true.

	Change in currency rate	Effect on Profit before tax
		Shs' 000
2018		
US$	-2.6%	(445,141)
Yen	-0.4%	(46,684)
Euro	-1.2%	(77,079)
Total		(568,904)
2017		
US$	3%	475,977
Yen	-7%	(744,656)
Euro	5%	369,725
Total		101,046

Interest rate risk

The Company exposure to interest rate risk is with regards to fluctuation in banks' interest rates in the market which affects the borrowings by the Company. The Company's non-current borrowings are at fixed rates thus minimising the exposure to the interest rate risk. The effect of fluctuation of overdraft floating interest rate would not be significant. The interest earning financial assets that the Company holds include investments in government securities and short-term deposits whose rates of return are predetermined.

Other price risk

This is the risk that the rate of the tariff will decline in the future. It is the risk of losing energy revenues due to a fall in the tariff. The Company's exposure to this kind of risk is highly regulated by the Power Purchase Agreement, which is a product of discussion by Kenya Power and the Company, with Energy Regulatory Commission as a moderator. The Company's main input for thermal energy generation is fuel which is a significant cost component. The Company is in an arrangement to pass this cost to the customer, Kenya Power.

35. Financial risk management (continued)

(b) Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables, related party advances, HTM treasury bonds and available-for-sale financial investments.

The carrying amount of financial assets recorded in the financial statements representing the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained, ageing of the receivables as follows:

	Neither past	Past due but not impaired		Past due and impaired	
	Due nor impaired	over 60 days	over 365 days		Total
	Shs '000	Shs '000	Shs '000		Shs '000
At 30 June 2018					
Trade receivables- Kenya Power	7,440,948	13,707,380	694,630	164,676	22,007,634
Treasury bonds	2,756,737	-	-	-	2,756,737
Deferred debt -non-current portion	1,028,196	-	-	-	1,028,196
Financial asset at fair value	11,306,096	-	-	-	11,306,096
Other receivables (excluding prepayments)	916,375	55,167	10,588	674,317	1,656,447
Cash and cash equivalents	3,379,102	-	-	-	3,379,102
	26,827,454	13,762,547	705,218	838,993	42,134,212

35. Financial risk management (continued)

(b) Credit risk (continued)

	Neither past	Past due but not impaired		Past due and impaired	
	Due nor impaired	over 60 days	over 365 days		Total
	Shs '000	Shs '000	Shs '000		Shs '000
At 30 June 2017					
Trade receivables-Kenya Power	10,069,859	5,641,598	-	164,676	15,876,133
Treasury bonds	344,603	-	2,414,108	-	2,758,711
Deferred debt -non-current portion	1,032,014	-	-	-	1,032,014
Financial asset at fair value	14,005,833	-	-	-	14,005,833
Other receivables (excluding prepayments)	984,044	-	-	674,317	1,658,361
Cash and cash equivalents	7,826,763	-	-	-	7,826,763
	34,263,116	5,641,598	2,414,108	838,993	43,157,815

The Company only sells generated electricity to Kenya Power and this minimizes the credit risk exposure on amount due from Kenya Power. Both companies have a contract that stipulates a 40 day credit period. Receivable balances from Company staff are recovered on payment of salaries.

Credit risk from balances with banks and financial institutions is managed by Company's treasury department in accordance with the Company's policies. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Company's Directors on an annual basis and may be updated throughout the year subject to approval of the Company's audit and risk management committee.The Company has one main customer Kenya Power, however limits are set to minimise the concentration of risk around Kenya Power and therefore mitigate financial loss through potential counterparty failure.

Credit risk from other receivables are managed by the Company's credit management policy.

35. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters and political violence.

The Company monitors its risk to shortage of funds using a recurring liquidity planning tool. This tool considers the account receivables from Kenya Power and the Ministry of Energy & Petroleum and maturity of financial instruments, together with projected cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and other borrowings.

The table below analyses maturity profiles of the financial liabilities of the Company based on the remaining period using 30 June 2018 as a base period to the contractual maturity date:

At 30 June 2018	Less than 3 months Shs '000	3 to 12 months Shs '000	1 to 5 years Shs '000	> 5 years Shs '000	Total Shs '000
Trade and other payables	4,178,524	-	1,586,258	-	5,764,782
Amount due to Kenya Power	5,292	-	-	-	5,292
Borrowings	-	11,204,903	48,198,065	79,760,361	139,163,329
Off balance sheet items					
Letters of credit	-	-	1,447,775	-	1,447,775
Capital commitments	-	-	121,176,124	-	121,176,124
	4,183,816	11,204,903	172,408,222	79,760,361	267,557,302

35. Financial risk management (continued)

(c) Liquidity risk (continued)

At 30 June 2018	Less than 3 months Shs '000	3 to 12 months Shs '000	1 to 5 years Shs '000	> 5 years Shs '000	Total Shs '000
Trade and other payables	4,219,099	-	3,859,604	-	8,078,703
Amount due to Kenya Power	1,290	-	-	-	1,290
Borrowings	-	11,425,441	53,375,805	81,542,117	146,343,363
Off balance sheet items					
Letters of credit	-	-	280,727	-	280,727
Capital commitments	-	-	144,658,763	-	144,658,763
	4,220,389	11,425,441	202,174,899	81,542,117	299,362,846

(d) Fair value measurement

Financial instruments

Fair Value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

IFRS 7 specifies a hierarchy of valuation techniques based on whether inputs used in the valuation techniques of financial instruments are observable or unobservable. Financial instruments are grouped into 3 levels based on the degree to which fair value data / input is observable.

i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active trading markets for identical assets or liabilities. This level includes corporate bonds traded on the Nairobi Securities Exchange ("NSE").

ii) Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices).

iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

35. Financial risk management (continued)

(d) Fair value measurement (continued)

Financial instruments (continued)

Fair Value hierarchy (continued)

Assets	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Year ended 30 June 2018				
Treasury bonds available for sale	-	349,690	-	349,690
Financial asset at fair value	-	11,306,096	-	11,306,096
Total assets	-	11,655,786	-	11,655,786
Assets				
Year ended 30 June 2017				
Treasury bonds available for sale	-	344,603	-	344,603
Financial asset at fair value	-	14,005,833	-	14,005,833
Total assets		14,350,436	-	14,350,436

There are no financial liabilities measured at fair value for the year ended 30 June 2018 (2017: Nil)

There were no transfers between levels 1, 2 and 3 in the period (2017: Nil).

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

(i)the use of quoted market prices – This was used to value the treasury bonds

(ii) the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date- This was used to value the financial asset at fair value

Sensitivity of fair value of level 2 financial instruments

The fair value of level 2 financial instruments is determined using valuation techniques which incorporate assumptions that are indirectly supported by prices from observable current market transactions in the same instruments and are based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of these financial instruments.

Notes to the Financial Statements *(continued)*

35. Financial risk management (continued)

(d) Fair value measurement (continued)

Financial instruments (continued)

Fair Value hierarchy (continued)

Financial instruments not measured at fair value

The fair value hierarchy for financial assets not measured at fair value is as shown in the table below:

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs'000	Carrying value KShs'000
At 30 June 2018					
Assets					
Cash and balances with Banks	3,383,402	-	-	3,383,402	3,383,402
Deferred Debt – Kenya Power	-	-	1,028,196	1,028,196	1,028,196
Trade receivables	-	-	21,883,279	21,883,279	21,883,279
Financial assets – held-to-maturity	-	1,835,866		1,835,866	2,407,047
Other receivables	-	-	1,016,063	1,016,063	1,016,063
Total	**3,383,402**	**1,835,866**	**23,927,538**	**29,146,806**	**29,717,987**
Liabilities					
Trade and other payables	-	-	9,513,953	9,513,953	9,513,953
Borrowings	-	-	131,908,369	131,908,369	131,908,369
Total	**-**	**-**	**141,422,322**	**141,422,322**	**141,422,322**

35. Financial risk management (continued)

(d) Fair value measurement (continued)

Financial instruments not measured at fair value (continued)

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs'000	Carrying value KShs'000
At 30 June 2017					
Assets					
Cash and balances with Banks	7,831,103	-	-	7,831,103	7,831,103
Deferred Debt – Kenya Power	-	-	1,072,494	1,072,494	1,072,494
Trade receivables	-	-	15,711,457	15,711,457	15,711,457
Financial assets – held-to-maturity	-	1,816,301	-	1,816,301	2,414,108
Other receivables	-	-	1,078,476	1,078,476	1,078,476
Total	**7,831,103**	**1,816,301**	**17,862,427**	**27,509,831**	**28,107,638**
Liabilities					
Trade and other payables	-	-	10,631,519	10,631,519	10,631,519
Borrowings	-	-	138,714,088	138,714,088	138,714,088
Total	**-**	**-**	**149,345,607**	**149,345,607**	**149,345,607**

The valuation techniques used in determining the fair value of financial assets and liabilities classified within level 2 and level 3.

The table below indicates the valuation techniques and main assumptions used in the determination of the fair value of the level 2 and level 3 assets and liabilities not measured at fair value but for which fair value is disclosed:

2017	Valuation basis/technique	Main assumptions
Deferred Debt – Kenya Power	Discounted cash flow model	Discount rate
Trade receivables	Discounted cash flow model	Discount rate
Financial assets – held-to-maturity	Discounted cash flow model	Market yield of the bond
Other receivables	Discounted cash flow model	Discount rate
Trade and other payables	Discounted cash flow model	Discount rate
Borrowings	Discounted cash flow model	Discount rate

35. Financial risk management (continued)

(d) Fair value measurement (continued)

Non-financial assets held at fair value

This note explains the judgements and estimates made in determining the fair values of the non-financial assets that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company has classified its non-financial assets into the three levels prescribed under the accounting standards.

Assets	**Level 1 Shs'000**	**Level 2 Shs'000**	**Level 3 Shs'000**	**Total Shs'000**
Year ended 30 June 2018				
Non-current assets held for sale	-	-	344,053	344,053
Property plant and equipment	-	-	242,178,132	242,178,132
Total assets	-	-	242,522,185	242,522,185
Assets				
Year ended 30 June 2017				
Non-current assets held for sale	-	-	-	-
Property plant and equipment	-	-	250,558,264	250,558,264
Total assets	-	-	250,558,264	250,558,264

There were no transfers between levels 1, 2 and 3 in the period (2017: Nil).

Valuation techniques used to determine level 3 fair values

The Company obtains independent valuations for its property plant and equipment at least every five years. The valuation method used is the depreciated replacement cost approach. The property plant and equipment classes subject to fair valuation are land and buildings, transmission lines and plant and equipment.

Fair value measurements using significant unobservable inputs (level 3)

We have disclosed under Note 12 , the changes in level 3 items for the periods ended 31 June 2017 and 31 June 2018 for recurring fair value measurements

35. Financial risk management (continued)

(d) Fair value measurement (continued)

Non-financial assets held at fair value (continued)

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements. See above for the valuation techniques adopted.

Description	Fair value as at 30 June 2018	Fair value as at 30 June 2017	Unobservable inputs	Relationship of unobservable inputs to fair value
	Shs'000	Shs'000		
Property plant and equipment	242,178,132	250,558,264	Estimated useful life	The higher the estimated useful life, the higher the fair value
Non-current assets held for sale	344,053	-	Estimated useful life	

36. Capital risk management

The primary objective of the Company's capital management is to ensure that it maintains some strong and healthy capital ratios in order to support its business and maximize shareholder value.

The Capital Management policy as approved by the Board of Directors (the Board) is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital, which the Company defines as net operating income divided by total shareholders' equity. The Board also monitors the level of dividends to ordinary shareholders.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares as circumstances would dictate. There were no changes in the Company's approach to capital management as regards the objectives, policies or processes during the year.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company's target is to keep the gearing ratios below 70%.

	2018	2017
	Shs'000	Shs'000
Ordinary shares and distributable reserves	118,297,630	108,247,608
Borrowings	131,908,369	138,714,088
Less cash and bank balances (note 20)	(3,383,402)	(7,831,103)
Net debt	128,524,967	130,882,985
Gearing ratio	52%	55%

Notes to the Financial Statements *(continued)*

37 Restatement

In the current year there has been a restatement of the financial statements on the following matters;

(a) Management has restated the financial statements to reflect the application of an asset ceiling on the retirement benefits obligation asset. This is in line with the requirements of IAS 19(R) and the Retirement Benefits Act.

IAS 19(R) limits the defined benefit asset to the lower of (i) the surplus in the defined benefit plan and (ii) the asset ceiling. It further defines the asset ceiling as 'the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan' plus unrecognised gains and losses.

The Retirement Benefits Act (RBA) Regulation 2000 states that a surplus can only be utilised to offset future contributions to the extent that the assets of the scheme exceed the liabilities by 110%. In addition, it stipulates that only 50% of the surplus is available to the sponsor on winding up.

(b) Management has restated the financial statements to account for the foreign exchange differences recoverable from Kenya Power as a derivative in line with IAS 39.

KenGen's transactions are based on Power Purchase Agreements which provide for recovery of KenGen's total foreign denominated costs for the applicable foreign currencies related to the plant from Kenya Power. The arrangement falls within the scope of IAS 39 as a financial asset at fair value. The impact of the restatement on the financial statements is as follows:

i. The definition of the asset and related disclosures will change to reflect the requirements of IAS 39.
ii. The asset has been measured at fair value.
iii. Changes in the fair value of the derivative have been recorded separately in profit or loss in 'other (losses)/ gains –net'.
iv. The related foreign exchange gains and losses have been recorded separately in profit or loss in 'Finance income' and 'Finance costs' respectively.

(c) Management has restated the financial statements to account for fuel and water revenues billed to Kenya Power and related costs separately in line with the requirements of IAS 18 and to further disaggregate the statement of profit or loss and other comprehensive income which is presented in line with IAS 1.

37. Restatement (continued)

	As previously stated Shs	Impact of Restatement Shs			As restated Shs
Statement of financial position		**(a)**	**(b)**	**(c)**	
As at 30 June 2016					
Non-current assets					
Retirement Benefit Obligation Asset	1,609,201	(510,430)	-	-	1,098,771
Financial asset at fair value	-	-	13,890,353	-	13,890,353
Non-current receivables	15,037,721	-	(13,890,353)	-	1,147,368
Current assets					
Financial asset at fair value	-	-	698,229	-	698,229
Trade receivables	10,045,640	-	(698,229)	-	9,347,411
Non-current liabilities					
Deferred income tax	(40,226,857)	153,129	-	-	(40,073,728)
Equity					
Other reserves	(77,540,603)	292,216	-	-	(77,248,387)
Retained earnings	(58,536,054)	65,085	-	-	(58,470,969)

37. Restatement (continued)

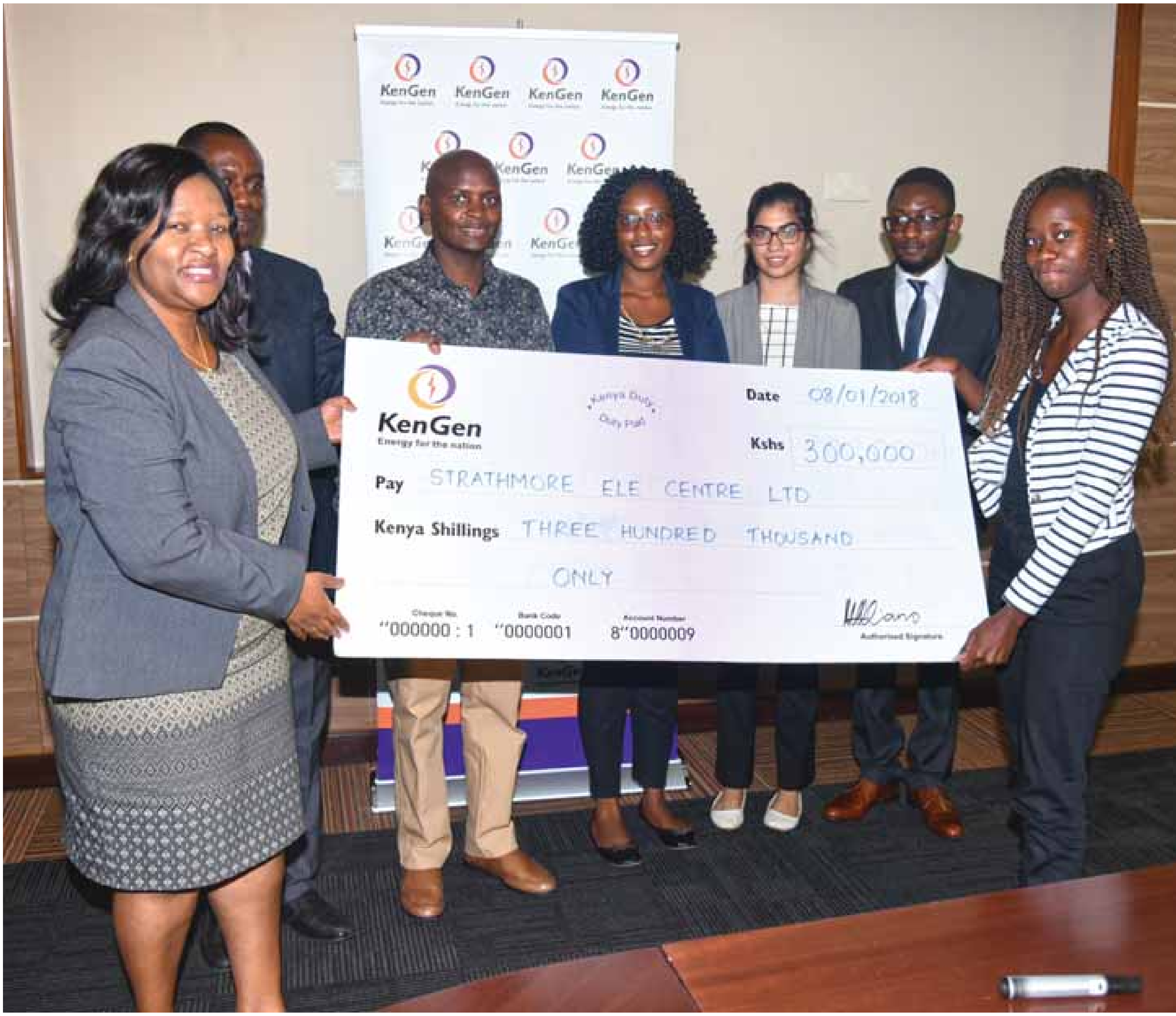
	As previously stated Shs	Impact of Restatement Shs			As restated Shs
		(a)	(b)	(c)	
Statement of financial position (continued)					
As at 30 June 2017					
Non-current assets					
Retirement Benefit Obligation Asset	1,603,464	(466,961)	-	-	1,136,503
Financial asset at fair value	-	-	13,117,376	-	13,117,376
Non-current receivables	14,149,390	-	(13,117,376)	-	1,032,014
Current assets					
Financial asset at fair value	-	-	888,457	-	888,457
Trade receivables	16,640,394	-	(888,457)	-	15,751,937
Non-current liabilities					
Deferred income tax	(42,196,671)	140,089	-	-	(42,056,582)
Equity					
Other reserves	(74,799,177)	210,872	-	-	(74,588,305)
Retained earnings	(69,724,767)	116,000	-	-	(69,608,767)

37. Restatement (continued)

Statement of profit or loss	As previously stated Shs	Impact of Restatement Shs			As restated Shs
Year ended 30 June 2017		**a)**	**b)**	**c)**	
Revenue					
Electricity Revenue	29,368,825	-	(362,203)	-	29,006,622
Steam Revenue	5,189,072	-	-	-	5,189,072
Fuel charge	-	-	-	9,069,403	9,069,403
Water charge	-	-	-	166,822	166,822
Reimbursable expenses					
Fuel costs	-	-	-	(8,812,614)	(8,812,614)
Water costs	-	-	-	(166,822)	(166,822)
Other Income	882,170	-	(72,233)	(256,789)	553,148
Other (losses)/gains - net	-	-	343,268	-	343,268
Expenses					
Depreciation and amortisation	(9,244,422)	-	-	-	(9,244,422)
Employee expenses	(4,912,764)	(72,736)	-	(769,248)	(5,754,748)
Steam costs	(2,795,798)	-	-	-	(2,795,798)
Plant operation and maintenance expenses	-	-	-	(1,554,480)	(1,554,480)
Other expenses	-	-	-	(2,454,146)	(2,454,146)
Operating expenses	(4,777,874)	-	-	4,777,874	–
Finance income	1,242,157	-	91,168	-	1,333,325
Finance costs	(3,417,442)	-	-	-	(3,417,442)
Income tax expense	(2,476,793)	21,821	-	-	(2,454,972

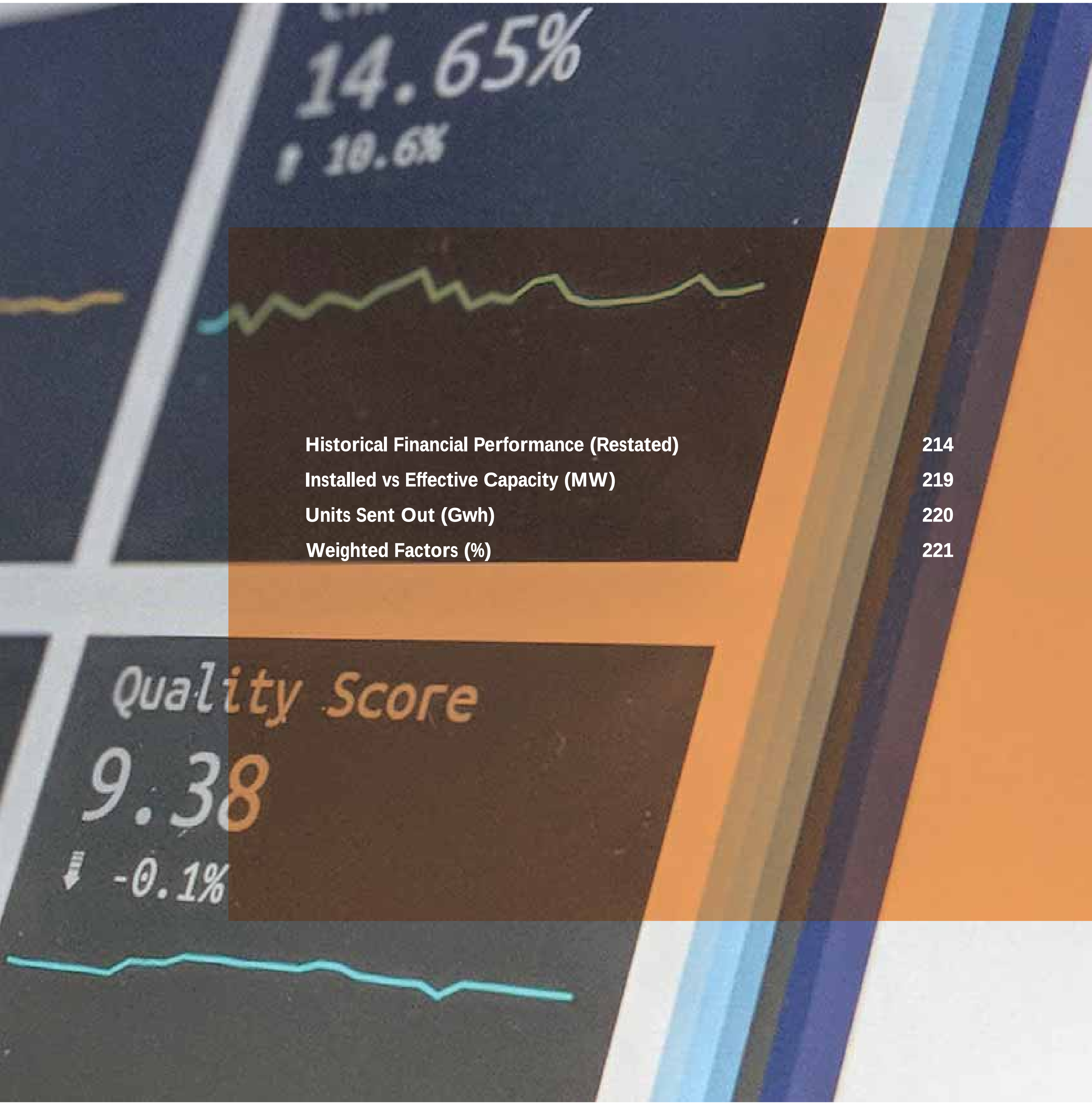
37. Restatement (continued)

Other comprehensive income	As previously stated Shs	Impact of Restatement Shs			As restated Shs
Year ended 30 June 2017		a)	b)	c)	
Items that will not be reclassified subsequently to profit or loss					
Remeasurement of defined benefit	(194,828)	116,205	-	-	(78,623)
Deferred tax on remeasurement	58,448	(34,861)	-	-	23,587



MD & CEO presenting a cheque to Strathmore

STATISTICS


14.65%
10.6%
Quality Score
9.38
-0.1%

Historical Financial Performance (Restated)

Company's Ten Years Financial Review

Plant Performance

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Units Sold(GWh)	7,989	7,556	7,819	7,027	6,084	6,022	5,404	4,933	3,596	4,339
Average weighted tariff (Shs/KWh)	3.67	3.84	3.70	3.60	2.78	2.73	2.76	2.73	2.79	2.65
Statement of Comprehensive Income (Shs'000)										
Electricity revenue	29,285,691	29,006,622	28,933,568	25,307,784	16,896,771	16,451,195	14,900,488	13,491,620	10,030,234	11,518,156
Steam revenue	6,222,056	5,189,072	6,856,018	3,689,361	192,693	58,365	-	-	-	-
Fuel charges	9,622,740	9,069,403	3,182,623	7,238,204	13,142,391	8,689,767	12,592,346	6,148,072	5,835,258	7,866,080
Water charges	159,172	166,822	329,079	375,341	459,722	215,141	91,470	-	-	-
	45,289,660	43,431,919	39,301,288	36,610,690	30,691,577	25,414,468	27,584,304	19,639,692	15,865,492	19,384,236
Reimbursable expenses										
Fuel costs	(9,246,855)	(8,812,614)	(3,261,460)	(7,129,037)	(12,870,395)	(8,403,602)	(12,232,498)	(5,958,669)	(5,824,143)	(7,860,438)
Water costs	(159,172)	(166,822)	(329,079)	(375,341)	(459,722)	(215,141)	(91,470)	-	-	-
Revenue less reimbursable expenses	35,883,633	34,452,483	35,710,749	29,106,312	17,361,460	16,795,725	15,260,336	13,681,023	10,041,349	11,523,798
Other income	274,771	553,148	1,945,524	515,418	378,914	308,723	124,784	94,691	102,568	453,192
Other(losses)/gains	(1,049,948)	343,268	(7,384,454)	(333,151)	2,019,367	(4,314,571)	(1,779,133)	8,139,947	4,001,118	1,149,540
	35,108,456	35,348,899	30,271,819	29,288,579	19,759,741	12,789,877	13,605,987	21,915,661	14,145,035	13,126,530
Expenses										
Depreciation	(10,147,886)	(9,244,422)	(10,223,370)	(6,478,945)	(4,727,937)	(4,578,728)	(4,883,237)	(4,581,339)	(3,829,198)	(3,847,124)
Employee expenses	(6,132,305)	(5,754,748)	(4,951,535)	(4,508,522)	(4,040,489)	(3,657,079)	(2,505,678)	(3,355,713)	(3,015,129)	(2,366,390)
Steam costs	(3,549,428)	(2,795,798)	(3,167,173)	(3,689,361)	(192,707)	(58,365)	-	-	-	-
Plant operation and maintenance expenses	(1,669,068)	(1,554,480)	(1,624,005)	(1,386,081)	(1,393,792)	(1,129,466)	(1,570,693)	(919,863)	(830,407)	(859,901)
Other expenses	(2,168,131)	(2,454,146)	(2,465,306)	(2,552,803)	(1,650,255)	(1,276,086)	(1,306,414)	(1,156,592)	(883,714)	(1,173,584)
Operating Profit	11,441,638	13,545,305	7,840,430	10,672,867	7,754,561	2,090,153	3,339,965	11,902,154	5,586,587	4,879,531
Compensating tax	-	-	(2,431,022)	-	-	-	-	-	-	-
Finance income	3,341,383	1,333,325	8,893,845	1,027,804	(1,009,094)	4,937,573	3,677,533	(6,253,896)	(2,360,143)	433,069
Finance costs	(3,037,554)	(3,417,442)	(3,132,187)	(3,010,659)	(2,587,519)	(3,000,802)	(2,972,308)	(1,996,951)	(741,491)	(756,319)
Profit Before Tax	11,745,467	11,461,188	11,171,066	8,690,012	4,157,948	4,026,924	4,045,190	3,651,307	2,484,953	4,556,281
Taxation (charge)/credit	(3,854,834)	(2,454,972)	(4,492,659)	2,827,315	(1,331,625)	1,197,780	(1,222,590)	(1,571,186)	801,534	(2,485,368)
Profit After Tax	7,890,633	9,006,216	6,678,407	11,517,327	2,826,323	5,224,704	2,822,600	2,080,121	3,286,487	2,070,913
Other Comprehensive Income/(Loss)	(622,921)	(528,500)	(351,569)	54,246,436	1,243,851	(16,722)	(1,736,685)	(633,498)	1,363,450	(127,106)
Total Comprehensive Income	7,267,712	8,477,716	6,326,839	65,763,763	4,070,174	5,207,982	1,085,915	1,446,623	4,649,937	1,943,807
Number of Shares Issued	6,594,522,339	6,594,522,339	6,243,098,469	2,198,361,456	2,198,361,456	2,198,361,456	2,198,361,456	2,198,361,456	2,198,361,456	2,198,361,456
Earnings per share -										
Basic and diluted (Shs)	1.20	1.37	1.08	5.24	1.29	2.38	1.28	0.95	1.49	0.94
Dividends per share(Shs)	0.40	-	-	0.65	0.40	0.60	0.60	0.50	0.50	0.50
Number of Employees	2,508	2,476	2,406	2,407	2,209	2,063	1,829	1,663	1,658	1,581

Statement of financial position (Shs'000)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
ASSETS										
Non-current assets										
Property, plant and equipment	328,082,460	323,843,363	320,932,980	305,378,764	209,235,821	153,201,471	120,664,699	116,786,429	102,230,784	92,699,405
Prepaid leases on land	4,170,183	4,229,783	4,150,673	3,223,658	1,048,372	439,957	35,426	1,373	1,417	1,446
Intangible assets	1,477,691	1,317,066	1,181,241	1,122,452	1,066,049	1,079,686	896,335	663,553	695,284	543,893
Financial asset at fair value	10,490,415	13,117,376	13,890,353	6,242,228	6,300,529	5,238,710	9,808,295	12,919,737	6,705,077	4,220,359
Non-current receivables	987,875	1,032,014	1,147,368	965,266	1,084,900	1,148,965	1,401,133	1,472,503	1,220,570	1,064,696
Treasury bonds	2,407,047	2,414,108	2,420,560	2,426,440	2,431,799	2,436,683	8,050,919	9,610,661	6,864,340	1,545,680
Retirement benefit asset	325,268	1,136,503	1,098,771	1,792,214	1,407,411	-	-	-	-	-
	347,940,938	**347,090,213**	**344,821,946**	**321,151,022**	**222,574,881**	**163,545,472**	**140,856,807**	**141,454,256**	**117,717,472**	**100,075,479**
Current assets										
Inventories	1,149,180	1,082,044	866,698	899,076	788,333	836,259	1,955,564	1,168,240	1,443,374	752,767
Trade receivables	21,883,279	15,751,937	9,347,411	8,082,805	7,913,895	6,186,749	7,221,777	7,786,396	3,590,525	5,195,179
Non-current Financial asset at fair value	815,682	888,457	698,229	633,872	357,395	338,286	405,477	523,554	250,378	120,922
Other receivables and prepayments	3,359,793	3,741,225	3,925,727	8,119,110	8,546,893	11,219,744	11,395,172	6,168,262	5,431,622	805,955
Asset held for sale	344,053	-	-	-	-	-	-	-	-	-
Corporate tax receivable	126,988	-	-	-	-	-	231,154	385,857	282,868	141,383
Treasury bonds	349,690	344,603	322,031	341,803	594,769	2,550,345	643,203	391,127	519,201	1,631,485
Cash and cash balances	3,383,402	7,831,103	6,756,324	3,292,307	9,429,358	3,996,427	435,719	3,115,598	21,331,446	4,221,990
	31,412,067	**29,639,369**	**21,916,420**	**21,368,973**	**27,630,643**	**25,127,810**	**22,288,066**	**19,539,034**	**32,849,414**	**12,869,681**
TOTAL ASSETS	**379,353,005**	**376,729,582**	**366,738,366**	**342,519,995**	**250,205,524**	**188,673,282**	**163,144,873**	**160,993,290**	**150,566,886**	**112,945,160**

Historical Financial Performance (Restated)

Statement of financial position (Shs'000) *(continued)*

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
EQUITY AND LIABILITIES										
Capital and reserves										
Share capital	16,487,710	16,487,710	15,609,684	5,495,904	5,495,904	5,495,904	5,495,904	5,495,904	5,495,904	5,495,904
Share premium	22,151,131	22,151,131	21,056,341	5,039,818	5,039,818	5,039,819	5,039,818	5,039,818	5,039,818	5,039,818
Other reserves	71,805,994	74,588,305	77,248,387	79,912,755	26,289,211	25,694,067	26,324,186	28,369,692	31,565,692	31,383,772
Retained earnings	79,658,790	69,608,767	58,470,969	51,145,614	39,884,740	37,728,726	33,209,643	30,513,173	28,429,454	25,060,618
	190,103,625	**182,835,913**	**172,385,381**	**141,594,091**	**76,709,673**	**73,958,516**	**70,069,551**	**69,418,587**	**70,530,868**	**66,980,112**
Non-current liabilities										
Borrowings	121,287,608	127,884,286	126,149,009	137,191,309	122,324,111	73,934,313	61,850,220	64,166,527	59,636,829	25,793,197
Non-current liabilities	-	-	-	-	1,000	293,876	255,647	1,119,400	1,428,100	1,501,300
Deferred income tax	45,496,036	42,056,582	40,073,728	35,924,900	15,604,657	14,222,916	15,968,498	15,032,183	12,001,274	12,802,808
Long term Contract payables	1,586,258	3,859,604	9,940,189	5,329,722	10,369,854	8,591,032	-	-	-	-
	168,369,902	**173,800,472**	**176,162,926**	**178,445,931**	**148,299,622**	**97,042,137**	**78,074,365**	**80,318,110**	**73,066,203**	**40,097,305**
Current liabilities										
Borrowings due within one year	10,620,761	10,829,802	10,757,003	9,427,225	13,790,779	7,000,387	7,265,504	4,480,481	1,876,081	1,399,880
Trade and other payables	7,927,695	6,771,915	4,943,371	8,176,731	6,616,958	7,197,468	4,539,132	3,852,291	2,939,340	3,082,895
Compensating Tax	2,331,022	2,431,022	2,431,022	-	-	-	-	-	-	-
Tax Payable	-	60,458	58,663	140,843	668,859	278,453	-	-	-	-
Dividends payable	-	-	-	4,735,174	4,119,633	3,196,321	3,196,321	2,923,821	2,154,394	1,384,968
	20,879,478	**20,093,197**	**18,190,059**	**22,479,973**	**25,196,229**	**17,672,629**	**15,000,957**	**11,256,593**	**6,969,815**	**5,867,743**
TOTAL EQUITY AND LIABILITIES	**379,353,005**	**376,729,582**	**366,738,366**	**342,519,995**	**250,205,524**	**188,673,282**	**163,144,873**	**160,993,290**	**150,566,886**	**112,945,160**
Capex	15,311,876	13,509,704	27,545,275	27,686,471	61,084,354	37,396,364	9,020,497	19,169,926	13,360,515	4,731,000

Historical Financial Performance (Restated)

Financial Ratios

	2018	2017	2016	2015	2014	2013
Profit Margin	40.11%	39.27%	38.13%	33.94%	23.86%	24.48%
Return on investment	4.28%	4.02%	4.38%	3.45%	3.39%	3.21%
Current Ratio	1.50	1.48	1.20	0.95	1.10	1.42
Debt Service Coverage Ratio	2.08	1.95	2.58	1.16	0.99	1.24
Self Financing Ratio	125%	88.91%	61%	41%	17%	27%
Debt/(Debt+Equity)	40%	42%	43%	47%	61%	51%
Return on Equity	4%	5%	4%	8%	4%	7%

Historical Financial Performance (Restated)

EBITDA and EBIT Review for the last Ten Years (Kshs '000)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenue	45,289,660	43,431,920	39,301,288	36,610,690	30,691,577	25,414,468	27,584,304	19,639,692	15,865,492	19,384,236
Reimbursable expenses	(9,406,027)	(8,979,437)	(3,590,539)	(7,504,378)	(13,330,117)	(8,618,743)	(12,323,968)	(5,958,669)	(5,824,143)	(7,860,438)
Revenue less reimbursable expenses	**35,883,633**	**34,452,483**	**35,710,749**	**29,106,312**	**17,361,460**	**16,795,725**	**15,260,336**	**13,681,023**	**10,041,349**	**11,523,798**
Other income	274,771	553,148	1,945,524	515,418	378,914	308,723	124,784	94,691	102,568	453,192
Other (losses)/gains	(1,049,948)	343,268	(7,384,454)	(333,151)	2,019,367	(4,314,571)	(1,779,133)	8,139,947	4,001,118	1,149,540
Operating expenses	(13,518,931)	(12,559,172)	(12,208,019)	(12,136,767)	(7,277,243)	(6,120,996)	(5,382,785)	(5,432,168)	(4,729,250)	(4,399,875)
EBITDA	**21,589,525**	**22,789,727**	**18,063,800**	**17,151,812**	**12,482,498**	**6,668,881**	**8,223,202**	**16,483,493**	**9,415,785**	**8,726,655**
Depreciation & Amortisation	(10,147,886)	(9,244,422)	(10,223,370	(6,478,945)	(4,727,937)	(4,578,728)	(4,883,237)	(4,581,339)	(3,829,198)	(3,847,124)
EBIT	**11,441,638**	**13,545,305**	**7,840,430**	**10,672,867**	**7,754,561**	**2,090,153**	**3,339,965**	**11,902,154**	**5,586,587**	**4,879,531**
Compensating tax	-	-	(2,431,022)	-	-	-	-	-	-	-
Finance income	3,341,383	1,333,325	8,893,845	1,027,804	(1,009,094)	4,937,573	3,677,533	(6,253,896)	(2,360,143)	433,069
Finance costs	(3,037,554)	(3,417,442)	(3,132,187)	(3,010,659)	(2,587,519)	(3,000,802)	(2,972,308)	(1,996,951)	(741,491)	(756,319)
Profit Before Tax	**11,745,467**	**11,461,188**	**11,171,066**	**8,690,012**	**4,157,948**	**4,026,924**	**4,045,190**	**3,651,307**	**2,484,953**	**4,556,281**
Taxation (charge)/credit	(3,854,834)	(2,454,972)	(4,492,659)	2,827,315	(1,331,625)	1,197,780	(1,222,590)	(1,571,186)	801,534	(2,485,368)
Profit After Tax	**7,890,633**	**9,006,216**	**6,678,407**	**11,517,327**	**2,826,323**	**5,224,704**	**2,822,600**	**2,080,121**	**3,286,487z**	**2,070,913**

Installed vs Effective Capacity (MW)

Installed Capacity in MW as at June ....

	2018		2017		2016		2015		2014	
Plant	**Installed**	**Effective**	**Installed**	**Effective**	**Installed**	**Effective**	**Installed**	**Effective**	**Installed**	**Effective**
Hydro										
Tana	**20**	20	20	20	20	20	20.0	20.0	20.0	20.0
Masinga	40	40	40	40	40	40	40.0	40.0	40.0	40.0
Kamburu	94.2	90	94.2	90	94.2	90	94.2	90.0	94.2	90.0
Gitaru	225	216	225	216	225	216	225.0	216.0	225.0	216.0
Kindaruma	72	70.5	72	70.5	72	70.5	72.0	70.5	72.0	70.5
Kiambere	168	164	168	164	168	164	168.0	164.0	168.0	164.0
Turkwel	106	105	106	105	106	105	106.0	105.0	106.0	105.0
sondu Miriu	60	60	60	60	60	60	60.0	60.0	60.0	60.0
Sang'oro	21.2	20	21.2	20	21.2	20	21.2	20.0	21.2	20.0
Small Hydros	11.75	11.3	11.75	11.30	11.75	11.30	11.75	11.30	13.70	11.75
Hydro Total	**818.15**	**796.8**	**818.15**	**796.8**	**818.15**	**796.8**	**818.15**	**796.8**	**818.15**	**796.6**
Thermal										
Kipevu 1	73.50	52.83	73.50	60	73.5	60	73.5	60.0	73.5	60.0
Kipevu III	120	115	120	115	120	115	120.0	115.0	120.0	115.0
Muhoroni GT1	30	28	30	28	30	27	30.0	27.0	30.0	27.0
Muhoroni GT2	30	0	30	28	30	28	30.0	27.0	30.0	27.0
Garissa & Lamu	0	0	0	0	8.98	8.2	8.98	8.2	8.7	7.7
Thermal Total	**253.5**	**195.8**	**253.5**	**231.0**	**262.5**	**238.2**	**262.5**	**237.2**	**262.2**	**236.7**
Geothermal										
Olkaria I	45	44	45	44	45	44	45.0	44.0	45.0	44.0
Olkaria I AU	150.5	140	150.5	140	150.5	140	150.5	140.0	0.0	0.0
Olkaria II	105	101	105	101	105	101	105.0	99.3	105.0	101.0
Olkaria IV	149.8	140	149.8	140	149.8	140	149.8	140.0	73.0	70.0
Eburru	2.5	2.1	2.5	0	2.5	2.3	2.5	2.3	2.5	2.3
Wellhead 37	15.5	15.00	15.5	9.40	10.50	9.40	5.50	4.40	5.00	4.40
Wellhead 43	12.8	11.40	12.8	12.40	12.80	12.40	12.80	12.80	12.80	12.80
Wellhead 914	27.8	25.00	27.8	25.78	27.80	25.78	27.80	27.80	12.80	12.80
Wellhead 915	10.0	10.00	20.0	18.90	20.00	18.90	10.00	10.00	0.00	0.00
Wellhead 919	5.0	5.00	0	0						
Wellhead 905	5.0	5.00	5.0	4.70						
Wellhead 39	5.0	5.00	5.0	4.70						
Geothermal Total	**533.90**	**503.5**	**533.90**	**523.90**	**523.9**	**493.8**	**509.0**	**480.6**	**256.1**	**247.3**
Wind										
Ngong I Phase I&II	11.9	11.9	11.9	11.9	11.9	11.9	11.9	11.9	5.1	5.1
Ngong II	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6	0.0	0.0
Wind Total	25.5	25.5	**25.5**	**25.5**	**25.5**	**25.5**	**25.5**	**25.5**	**5.1**	**5.1**
KenGen TOTAL	**1,631.1**	**1,521.6**	**1,631.1**	**1,556.5**	**1,630.1**	**1,554.3**	**1,615.2**	**1,540.1**	**1,341.9**	**1,285.7**

** Active/Reactive power*
Installed capacity corrected to reflect the actual Machine rating

Units Sent Out (Gwh)

Units Generated and Sold as at 30 June	2018		2017		2016		2015		2014	
HYDRO	Generated	Sales	Generated	Sales	Generated	Sales	Generated	Sales	Generated	Sales
Sagana	5.69	5.69	4.18	4.18	7.62	7.62	8.20	7.55	9.05	9.05
Mesco	2.26	2.26	1.98	1.96	2.79	2.78	2.48	2.47	1.90	1.90
Wanjii	17.11	16.96	32.10	31.97	45.23	44.92	44.07	43.73	42.21	42.12
Tana	97.81	95.56	72.81	70.97	112.02	109.27	111.08	108.23	71.11	68.92
Masinga	107.52	107.49	169.63	169.44	126.70	126.69	137.86	137.72	206.81	206.42
Kamburu	322.03	321.31	384.54	383.79	434.78	434.03	358.62	357.98	421.91	420.87
Gitaru	725.24	724.12	776.80	775.27	863.43	862.02	711.41	709.88	831.72	829.95
Kindaruma	179.95	179.23	184.05	183.20	209.47	208.27	165.97	165.30	201.89	201.23
Kiambere	752.46	750.98	939.38	938.47	997.93	996.29	718.40	717.64	980.35	978.67
Turkwel	461.56	457.90	404.29	402.10	428.37	426.23	554.10	551.22	721.05	718.59
Sondu Miriu	388.99	388.03	282.08	281.55	419.52	418.59	376.45	375.54	351.74	351.86
Sangoro	129.32	128.98	90.46	90.31	140.59	140.31	124.89	124.54	109.54	109.32
Gogo	7.29	7.20	5.27	5.21	6.12	6.05	5.63	5.56	5.83	5.83
Sosiani	0.72	0.71	0.63	0.63	1.17	1.15	0.87	0.86	0.99	0.98
Total Hydros	**3,197.95**	**3186.40**	**3,348.20**	**3,339.05**	**3,795.75**	**3,784.24**	**3,320.03**	**3,308.22**	**3,956.10**	**3,945.71**
THERMAL										
Kipevu I	243.81	238.26	217.96	211.28	132.86	128.56	161.17	156.51	228.41	219.93
Kipevu III	593.71	583.81	521.04	512.13	186.01	181.39	304.47	299.03	533.67	524.22
Embakasi/Muhoroni Gas Turbine (Active)*		65.50	111.17	108.21	0.62	0.62	4.20	4.10	27.46	26.94
Embakasi/Muhoroni Gas Turbine (Re - Active)		0.00	37.86	39.91	97.36	97.36	84.97	84.97	25.39	25.39
Total Thermal	**837.52**	**887.56**	**888.03**	**871.53**	**416.85**	**407.93**	**554.81**	**544.61**	**814.93**	**796.48**
GEOTHERMAL										
Olkaria I	256.00	247.35	200.59	194.69	345.52	331.06	348.68	332.69	367.74	352.49
Olkaria I AU	1138.40	1133.13	1008.65	968.35	1,088.21	1054.56	774.36	743.63	-	-
Olkaria II	852.70	831.50	833.92	790.69	857.18	814.38	798.29	756.40	754.25	712.38
Olkaria IV	1131.70	1131.71	895.61	852.33	1,021.03	975.51	1107.69	1064.09	172.20	172.20
Eburru	6.77	6.17	0.00	0.00	10.65	9.85	12.48	10.99	9.38	6.72
Wellhead 37 & 39	136.21	127.12	99.49	89.78	17.08	15.51	10.49	9.50	16.75	16.75
Wellhead 43	68.52	66.14	78.93	74.39	79.02	74.91	82.69	78.42	29.28	29.28
Wellhead 914,919,905 & 915	344.70	324.84	331.12	311.81	272.85	266.38	114.98	108.49	7.24	7.24
Wellheads Total	549.43	518.10	509.54	477.28	368.95	356.81	208.16	196.41	53.27	53.27
Total Geothermal	**3,935.00**	**3,867.96**	**3,448.30**	**3,282.04**	**3,691.54**	**3,542.18**	**3,249.66**	**3,104.21**	**1,356.84**	**1,297.06**
ISOLATED THERMALS										
Garissa	0.00	0.00	0.00	0.00	25.51	24.75	25.82	25.77	20.67	20.29
Lamu	0.00	0.00	0.00	0.00	6.46	6.33	7.07	6.95	7.30	7.24
Total Isolated	**0.00**	**0.00**	**0.00**	**0.00**	**31.97**	**31.09**	**32.89**	**32.72**	**27.97**	**27.53**
WIND TURBINE										
Ngong' I Phase I &2	22.23	21.57	28.92	28.50	25.47	25.04	16.68	16.66	17.59	17.59
Ngong' II	25.89	25.89	34.75	34.68	31.88	31.62	20.48	20.45	-	-
Total Wind	48.12	47.46	63.67	**63.18**	**57.35**	**56.66**	**37.16**	**37.11**	**17.59**	**17.59**
TOTAL KenGen	**8,018.59**	**7989.39**	**7,748.20**	**7,556.09**	**7,993.46**	**7,819.09**	**7,194.55**	**7,026.87**	**6,173.43**	**6,084.37**

Notes:
1) The difference between the units generated and sold out is due to system losses and auxilliary consumption
2) System losses comprise of technical and non-technical losses

Weighted Factors (%)

KenGen
Energy for the nation.

POWER STATION	Effective Capacity	2017/2018		2016/2017		2015/2016		2014/2015		2013/2014		2012/2013		2012/2011	
		Availability	Load factor	Availability	Load factor	Availability	Load factor	Availability	Load factor	Availability	Load Factor	Availability	Load Factor	Availability	Load Factor
Hydro							**69.348619**								
Sagana	1.50	59.4	43.30	58.20	31.82	85.26	52.79	87.70	57.45	99.42	68.88	82.59	73.87	96.25	68.92
Mesco	0.43	98.0	60.00	97.68	52.04	96.06	66.03	96.25	67.08	69.70	72.61	8.04	0.00	0.00	0.00
Wanjii	7.40	81.5	26.39	79.24	49.32	85.21	69.59	75.60	67.47	91.39	64.98	75.60	63.42	89.52	70.16
Tana	20.00	96.7	55.83	97.53	40.51	97.15	63.76	89.83	61.78	40.95	39.34	77.85	61.39	71.31	50.11
Masinga	40.00	77.6	30.68	83.14	48.36	99.83	36.06	96.42	39.25	96.83	58.93	76.44	42.27	98.77	10.42
Kamburu	90.00	86.9	40.85	93.91	48.68	98.31	52.54	91.06	45.41	90.59	53.38	94.71	65.97	96.62	48.83
Gitaru	216.00	96.8	38.33	94.84	40.97	95.85	42.68	97.94	37.52	97.15	43.86	97.69	54.73	84.98	40.14
Kindaruma	70.50	87.1	29.14	90.29	29.66	99.58	35.07	96.15	26.77	90.81	32.58	71.98	65.38	85.18	47.09
Kiambere	164.00	97.0	52.38	97.29	65.32	99.26	67.62	96.74	49.95	93.06	68.12	99.13	78.58	96.74	60.17
Turkwel	105.00	98.1	50.18	96.29	43.72	98.90	46.01	82.62	59.36	98.08	78.12	87.62	59.26	90.59	51.09
Sondu Miriu	60.00	98.3	74.01	97.05	53.57	99.59	79.60	97.58	71.45	97.95	66.78	81.29	74.75	95.61	77.72
Sangor'o	20.00	96.9	73.81	81.72	51.54	99.72	75.50	95.49	67.70	94.01	62.40	80.20	59.86	0.00	0.00
Gogo	1.70	76.0	48.93	68.08	34.96	95.86	38.70	63.71	39.66	66.25	37.00	64.52	32.12	77.96	32.53
Sosiani	0.30	41.7	27.40	49.97	23.81	48.86	33.25	45.65	57.82	93.44	55.82	84.20	44.30	91.25	52.67
Total Effective Capacity	**796.83**														
Weighted Factors - Hydros		**93.92**	**45.81**	**94.06**	**47.84**	**98.04**	**52.76**	**85.75**	**45.00**	**93.55**	**56.53**	**91.03**	**63.64**	**88.64**	**48.24**
Thermal															
Kipevu I	60.00	61.28	46.39	69.43	40.20	75.39	24.21	70.56	34.36	68.52	41.84	89.18	35.23	66.18	48.55
Kipevu III	115.00	89.60	58.93	93.05	50.84	97.84	17.66	95.57	29.68	96.38	52.04	93.85	31.56	92.92	51.82
Total Effective Capacity	**175.00**														
Weighted Factors - Thermal		**79.89**	**54.63**	**84.95**	**47.19**	**89.09**	**20.21**	**87.00**	**31.28**	**86.83**	**48.54**	**92.25**	**32.82**	**83.75**	**50.70**
Geothermal															
Olkaria I	45.00	70.71	64.94	55.75	74.08	93.21	87.65	91.05	86.32	97.15	99.23	88.31	95.65	73.11	74.10
Olkaria I AU	140.00	96.27	92.82	93.37	78.96	88.37	88.49	89.52	73.77						
Olkaria 2	101.00	94.44	96.38	94.33	89.37	96.93	93.19	90.71	85.49	79.70	92.20	78.79	78.62	85.50	94.50
Olkaria IV	141.52	98.03	91.29	95.38	68.75	94.78	83.04	91.05	86.77						
Eburru	2.40	58.34	0.00	0.00	0.00	73.89	50.63	78.64	54.54	43.73	67.27		45.66	68.62	0.04
Wellhead 37 & 39	17.20	95.33	48.45	84.62	48.45	13.46	23.23	29.74	31.89	65.37	43.45		56.54	0.53	19.60
Wellhead 43	12.80	85.76	70.39	90.63	70.39	91.75	70.47	85.77	75.23	30.48	52.22	0.00	0.00	0.00	0.00
Wellhead 914,919,905 & 915	47.80	94.85	77.63	84.16	77.63	90.53	78.12	91.86	67.47						
Total Effective Capacity	**507.72**														
Weighted Factors - Geothermal		**91.46**	**92.92**	**87.18**	**81.29**	**80.66**	**87.36**	**86.36**	**82.88**	**79.65**	**88.38**	**78.01**	**82.77**	**78.60**	**84.10**
Gas Turbines															
Gas Turbine	28.00	86.04	22.66	87.04	22.66	80.51	20.66	73.09	0.87	87.14	17.18	36.94	11.24	42.00	6.28
Total Effective Capacity	**28.00**	**86.04**	**22.66**	**87.04**	**22.66**	**80.51**	**20.66**								
Weighted Factors - GT's		**86.04**	**22.66**	**87.04**	**22.66**	**80.51**	**20.66**	**73.09**	**0.87**	**87.14**	**17.18**	**36.94**	**11.24**	**42.00**	**6.28**
Isolated Thermals															
Garissa (KenGen)	0.00	0.00	0.00	0.00	0.00	92.69	45.45	94.31	19.29	90.17	37.35	72.76	38.08	74.00	39.30
Garissa (Aggreko)	0.00	0.00	0.00	0.00	0.00	93.73	65.37	99.10	70.63						
Lamu	0.00	0.00	0.00	0.00	0.00	86.40	47.58	87.30	44.04	87.27	48.04	90.98	35.84	88.29	39.21
Total Effective Capacity	**0.00**														
Weighted Factors - Thermals		**0.00**	**0.00**	**0.00**	**0.00**	**92.15**	**51.83**	**94.47**	**45.36**	**89.52**	**39.74**	**76.83**	**37.58**	**85.10**	**39.23**
Wind Turbine															
Ngong I Phase I	5.10	55.19	29.01	71.83	29.01	82.03	29.70	74.90	19.36	91.63	39.38	70.00	31.15	69.30	38.05
Ngong I Phase II	6.80	95.16	26.80	89.16	26.80	84.58	19.64	84.34	27.74						
Ngong II	13.60	73.82	21.73	76.11	29.11	81.23	26.47	89.50	32.97						
Total Effective Capacity	**25.50**														
Weighted Factors - Wind		**74.72**	**24.54**	**79.03**	**28.47**	**82.28**	**25.29**	**85.20**	**28.85**	**91.63**	**39.38**	**70.00**	**31.15**	**69.30**	**38.05**

Notes.
Availability and Load Factor is a Percentage (%)

SHAREHOLDERS CALENDAR

KenGen 2016 Shareholders Tour at Ngong Wind Farm

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN THAT THE SIXTY-SIXTH ANNUAL GENERAL MEETING of the Company will be held at the Kasarani Gymnasium, Thika Road, Nairobi on Tuesday, 11 December 2018 at 11.00 a.m. to conduct the following business:

ORDINARY BUSINESS

1. To table the proxies and note the presence of a quorum.
2. To read the Notice convening the meeting.
3. To consider and if approved, adopt the Company's audited financial statements for the year ended 30 June 2018, together with the Chairman's, Directors' and Auditors' Reports thereon.
4. To approve the payment of a final dividend of 33% or Kshs 0.40 per ordinary share of Kshs 2.50, subject to withholding tax where applicable, in respect of the financial year ended 30 June 2018.
5. To approve payment of Directors' fees for the year ended 30 June 2018.
6. Auditors:

   To note that the audit of the Company's books of accounts will continue to be undertaken by the Auditor-General or an audit firm appointed by him in accordance with Section 23 of the Public Audit Act 2015.
7. To authorise the Directors to fix the remuneration of the Auditors.
8. To elect Directors:
   - (i) Mr. Henry Rotich, who retires on rotation in accordance with Article 104 of the Articles of Association of the Company and being eligible, offers himself for re-election as a Director of the Company.
   - (ii) Mr. Joseph Sitati, who retires on rotation in accordance with Article 104 of the Articles of Association of the Company and being eligible, offers himself for re-election as a Director of the Company.
   - (iii) Mr. Maurice Nduranu who retires on rotation in accordance with Article 104 of the Articles of Association of the Company and being eligible, offers himself for re-election as a Director of the Company.
9. In accordance with the provisions of Section 769 of the Companies Act 2015, the following directors, being members of the Audit, Risk & Compliance Committee of the Board be elected to continue to serve as members of the said Committee:
   - (i) Mr. Joseph Sitati (Subject to his re-election to the Board as per Agenda item 8 (ii))
   - (ii) Mr. Humphrey Muhu, Alternate to Henry Rotich (Cabinet Secretary - The National Treasury)
   - (iii) Mrs. Ziporah Ndegwa
   - (iv) Mrs. Phyllis Wakiaga
   - (v) Mr. Kairu Bachia
10. To consider any other business for which due notice has been given.

By Order of the Board

Paul K. Ndungi
Company Secretary

19 November 2018

NOTES:

1. A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company.

2. A Proxy Form may be obtained from the Company's website at www.kengen.co.ke, registered office of the Company, Pension Plaza 2, Kolobot Road, Parklands, Nairobi or offices of the Company's shares registrar firm, Image Registrars Limited, Barclays Plaza 5th Floor, Loita Street, Nairobi.

3. To be valid, the Proxy Form, must be duly completed by a member and must either be lodged at the registered offices of the Company's shares registrar firm, Image Registrars Limited, Barclays Plaza 5th Floor, Loita Street, P.O. Box 9287, 00100 GPO, Nairobi or be posted, or scanned and emailed to info@image.co.ke in PDF format; so as to reach Image Registrars not later than Friday, 7 December 2018 at 11.00 a.m.

4. In the case of a member being a Limited Company, the Proxy Form must be completed under its Common Seal or under the hand of an officer or attorney duly authorised in writing.

5. In accordance with Article 137 of the Articles of Association of the Company, a copy of the entire Annual Report & Accounts may be viewed on the Company's website at www.kengen.co.ke or a printed copy may be obtained from the Registered Office of the Company, KenGen Pension Plaza 2, Kolobot Road, Parklands, Nairobi, P.O. Box 47936 - 00100 GPO, Nairobi.

Ilani ya Mkutano Mkuu wa kila Mwaka

ILANI INATOLEWA KWAMBA MKUTANO MKUU WA KILA MWAKA WA SITINI NA SITA wa Kampuni utaandaliwa katika Kasarani Gymnasium, Thika Road, Nairobi, jumanne, Decemba kumi na moja, 2018 saa tano asubuhi kuendesha shughuli zifuatazo:

SHUGULI ZA KAWAIDA

1. Kuwasilisha majina ya wawakilishi na kutambua kuwepo kwa idadi ya kutosha ya wanachama kuendesha shughuli.
2. Kusoma Ilani ya kuandaa mkutano.
3. Kuchunguza na iwapo itaidhinishwa, kupitisha taarifa za kifedha za Kampuni zilizokaguliwa kwa mwaka uliomalizika 30 Juni 2018, pamoja na Ripoti za Mwenyekiti, Wakurugenzi na Wahasibu zilizoambatanishwa.
4. Kupitisha malipo ya mgao wa mwisho wa asilimia 33% au senti 0.40 kwa kila hisa ya kawaida ya shilingi mbili senti hamsini ikitegemea ushuru wa kushikilia inavyohitajika, kuhusiana na kipindi cha matumizi ya fedha kilichomalizika 30 Juni 2018.
5. Kuidhinisha malipo ya ujira ya Wakurugenzi kwa mwaka uliomalizika 30 Juni 2018.
6. Wahasibu:

   Kutambua kuwa ukaguzi wa vitabu vya hesabu vya Kampuni utaendela kutekelezwa na Mhasibu Mkuu au kampuni ya uhasibu atakayoteua kwa mujibu wa Sehemu ya ishirini na tatu ya Sheria ya Uhasibu ya 2015.
7. Kuidhinisha Wakurugenzi kuamua mshahara wa Wahasibu.
8. Kuchagua Wakurugenzi

   Kwa mujibu wa Kifungu mia moja na nne cha Katiba ya Kampuni na kwa kuwa Wakurugenzi hawa wanastaafu kwa mzunguko na wanahitimu, wanajitokeza kuchaguliwa tena kama Wakurugenzi wa Kampuni:

   (i) Bw. Henry Rotich
   (ii) Bw. Joseph Sitati
   (iii) Bw. Maurice Nduranu
9. Kwa mujibu wa kifungu cha 769 cha sheria za Kampuni za 2015, wakurugenzi wafuatao, ambao ni wanachama wa kamati ya Bodi ya ukaguzi, madhara na maafikiano, wachaguliwe ili kuendelea kuhudumu kama wanachama wa kamati hiyo:

   (i) Bw. Joseph Sitati (kutokana na uchaguzi wake tena kwa Bodi kama Agenda item 8 (ii))
   (ii) Bw. Humphrey Muhu, Mbadala kwa Henry Rotich (Katibu wa Baraza la Mawaziri - Hazina ya Taifa)
   (iii) Bi. Ziporah Ndegwa
   (iv) Bi. Phylis Wakiaga
   (v) Bw. Kairu Bachia
10. Kungalia shughuli zingine zile ambazo ilani imepeanwa.

Amri ya Bodi

Paul K. Ndungi
Katibu wa Kampuni

19 Novemba 2018

MAELEZO

1. Mwanachama aliye na haki ya kudhuhuria na kupiga kura kwenye mkutano na ambaye hana uwezo wa kufanya hivyo anaweza kuteua mwakilishi kuhudhuria na kupiga kura kwa niaba yake. Si lazima mwakilishi awe mwanachama wa Kampuni.

   Fomu ya Uwakilishi inaweza kupatikana kwenye tovuti ya Kampuni www.kengen.co.ke, afisi kuu za Kampuni, Pension Plaza 2, Kolobot Road, Parklands, Nairobi au afisi za shirika la hisa za Kampuni, Image Registrars Limited, Barclays Plaza Ghorofa ya Tano, Loita Street, Nairobi.

2. Ili kuwa halali, Fomu ya Uwakilishi, ni lazima ijazwe kikamilifu na mwanachama na kuwasilishwa kwa afisi za shirika la hisa za Kampuni, Image Registrars Limited, Barclays Plaza Ghorofa ya tano, Loita Street, SLP 9287, 00100 GPO, Nairobi au kutumwa kwa njia ya baruapepe kwa info@image.co.ke kwa muundo wa PDF; ili kufikia Image Registrars kabla ya Ijumaa, 7 Decemba 2018 saa tano asubuhi.

3. Iwapo ni mwanachama wa kampuni ya dhima yenye kikomo, hii fomu ni lazima ijazwe chini ya nembo yake au mbele ya afisa au wakili ambaye ataidhinishwa kwa maandishi.

4. Kwa mujibu wa Kipengee 137 cha Katiba ya Kampuni, nakala ya Ripoti nzima ya Kila Mwaka na Hesabu inaweza kupatikana kwenye tovuti www.kengen.co.ke au nakala iliyochapishwa ipatikane kwenye afisi kuu za Kampuni, Stima Plaza, Kolobot Road, Parklands, Nairobi, SLP 47936 – 00100 GPO, Nairobi.

Shareholder Notifications

Final Dividend for the financial year ended 30 June 2018

Closure of Register and Date of Payment

The Register of Members will be closed from 13 to 14 December, 2018 both dates inclusive.

If approved, the dividend will be paid, less withholding tax where applicable on or about Thursday, 7 February 2019 to the shareholders whose names appear in the Register of Members at the close of business on Tuesday, 11 December 2018.

Update of Particulars

- For all CDS accountholders, please update your postal address, email address and bank account details at the CDSC through your Stockbroker or Custodian Bank.
- For all Share Certificate holders, please update your postal address, email address and bank account details at the offices of Image Registrars Ltd, Barclays Plaza 5th Floor, Loita Street, P.O. BOX 9287-00100 GPO Nairobi.

Taarifa ya Mwenyehisa

Mgao wa Mwisho kwa Kipindi cha Matumizi ya Fedha kilichomalizika Juni 30, 2018

Kufungwa kwa Rejista na Tarehe ya Malipo

Rejista ya wanachama itafungwa kuanzia 13 hadi 14 Decemba, 2018 siku zote zikiwemo.

Ikiwa itaidhinishwa, mgao wa faida utalipwa baada ya kuondoa ushuru wa kushikilia mnamo au karibu 7 Februari, 2019, kwa wenyehisa ambao majina yao yamo 11 Decemba, 2018.

Kuteng'eneza Upya/Kurekebisha Maelezo

- Kwa wote walio na akaunti za CDS, tafadhali toa maelezo mapya kuhusu anwani yako, barua pepe na akaunti ya benki katika CDSC kupitia wakala wako wa hisa au Benki Angalizi.
- Kwa wote walio na vyeti vya kumili hisa, tafadhali toa malezo upya kuhusu anwani yako ya posta, barua pepe na maelezo kuhusu akaunti yako ya benki katika afisi za Image Registrars, Barclays Plaza ghorofa ya tano, Mama Ngina Street, SLP 9287-00100 GPO Nairobi.

Proxy Form

P.O. Box 47936 – 00100 GPO

NAIROBI

I/WE………………………………………………...of ……………………………..…… being a member of the above

Company, hereby appoint: ………………………………...……of……………………………………………..………. or

failing him/her ………………..………..….. of ……………………………………….. failing whom, the Chairman of

the Meeting, as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to

be held on Tuesday, 11 December 2018 and at any adjournment thereof.

As witness my/our hand this …………………… day of ……………………………2018.

Signed ………………………………………………………………………

Notes:

1. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote in his stead and a proxy need not be a member of the Company.
2. In the case of a member being a Limited Company this form must be completed under its Common Seal or under the hand of an officer or attorney duly authorised in writing.
3. The Proxy Form must be delivered to Image Registrars Limited not later than Friday, 7 December 2018 at 11.00 a.m. Proxy Forms should be sent by Post to Image Registrars of P O Box 9287, 00100 Nairobi. Alternatively, duly signed proxies can be scanned and emailed to info@image.co.ke in PDF format.

Fomu ya Uwakilishi

S.L.P. 47936 – 00100 GPO

NAIROBI

MIMI/ SISI ………………………………………………………… wa …………………………………………………………

kama mwanachama wa Kampuni iliyotajwa hapa juu, namteua: ……………………………………………………… wa

…………………………………………au akikosa ……………………………………………………………………

wa …………………………… …………………….. na iwapo hataweza kuhudhuria, mwenyekiti wa Mkutano,

kama mwakilishi wangu/wetu, kupiga kula kwa niaba yangu/yetu katika Mkutano Mkuu wa Kila Mwaka wa Kampuni

utakaoandaliwa mnamo 11 Decemba 2018 au wakati wowote ule endapo utaahirishwa.

Kama mashahidi sahihi yangu/yetu………… ……………………….. siku ya …………………… 2018

Sahihi ………………………………………………………………………

Maelezo:

1. Mwanachama aliye na haki ya kuhudhuria na kupiga kura ana haki ya kuteua mwakilishi mmoja au zaidi kuhudhuria na kupiga kura kwa niaba yake na sio lazima mwakilishi awe mwanachama wa Kampuni.

2. Iwapo ni mwanachama wa kampuni ya dhima yenye kikomo, hii fomu ni lazima ijazwe chini ya nembo yake au mbele ya afisa au wakili ambaye ataidhinishwa kwa maandishi.

3. Fomu ya Uwakilishi ni lazima iwasilishwe kwa Image Registrars kabla ya Ijumaa, 7 Decemba 2018 saa tano asubuhi. Fomu za Uwakilishi zinapasa kutumwa kwa Posta kwa Image Registrars wa SLP 9287, 00100 Nairobi. Badala yake, fomu za uwakilishi zilizojazwa na kutiwa sahihi zinaweza kutolewa nakala na kutumwa kwa baruapepe info@image.co.ke kwa umbo la PDF.

Bank Details

We encourage all shareholders who hold certificates and whose dividends are paid via cheques to provide their bank details to our Company's shares registrar firm, Image Registrars Limited, Barclays Plaza 5th Floor, Loita Street, Nairobi P.O. Box 9287, 00100 GPO, Nairobi Tel: 020-2212065/2230330, 0770052116, 0735565666, 0724699667, email: info@image.co.ke to enable us post the future dividends directly to their bank accounts.

Also, we encourage all shareholders who hold CDSC accounts and whose dividends are paid via cheques to provide their bank details through their stockbrokers to enable us post the future dividends directly to their bank accounts.

Unclaimed Dividends

Further to the Unclaimed Financial Assets Act 2011, we are appealing to Shareholders who have unclaimed dividends to do so with immediate effect to avoid the dividends being surrendered to the Unclaimed Financial Assets Authority.

Dividend enquiries can be made at the Shares & Securities Office, KenGen Pension Plaza 2, Kolobot Road, Parklands, Nairobi P.O. Box 47936-00100 Nairobi, Tel: 020-3666961/5, 0711036961/5, email: shares@kengen.co.ke or offices of the Company's shares registrar firm, Image Registrars Limited, Barclays Plaza 5th Floor, Loita Street, Nairobi P.O. Box 9287, 00100 GPO, Nairobi Tel: 020-2212065/2230330, 0770052116,0735565666,0724699667, email: info@image.co.ke

Declaration of Dormancy on Inactive CDS Accounts

The Central Depository and Settlement Corporation Limited (CDSC) has formulated, and the Capital Markets Authority has approved, the CDS Accounts Dormancy Rules and Procedures. The declaration of dormancy is intended to safeguard investors' holdings in CDS accounts. An investor will not be able to carry out any transactions in a CDS Account that has been declared dormant.

CDSC has granted a grace period of seven (7) months beginning June 1st 2018 to December 31st 2018 before the declaration of dormancy is effected.

Pursuant to the Dormancy Rules, CDS Accounts (Individual or Corporate, Local or Foreign) with no activity for a continuous period of twenty four (24) months as at December 31st 2018 will be declared dormant on January 1st 2019.

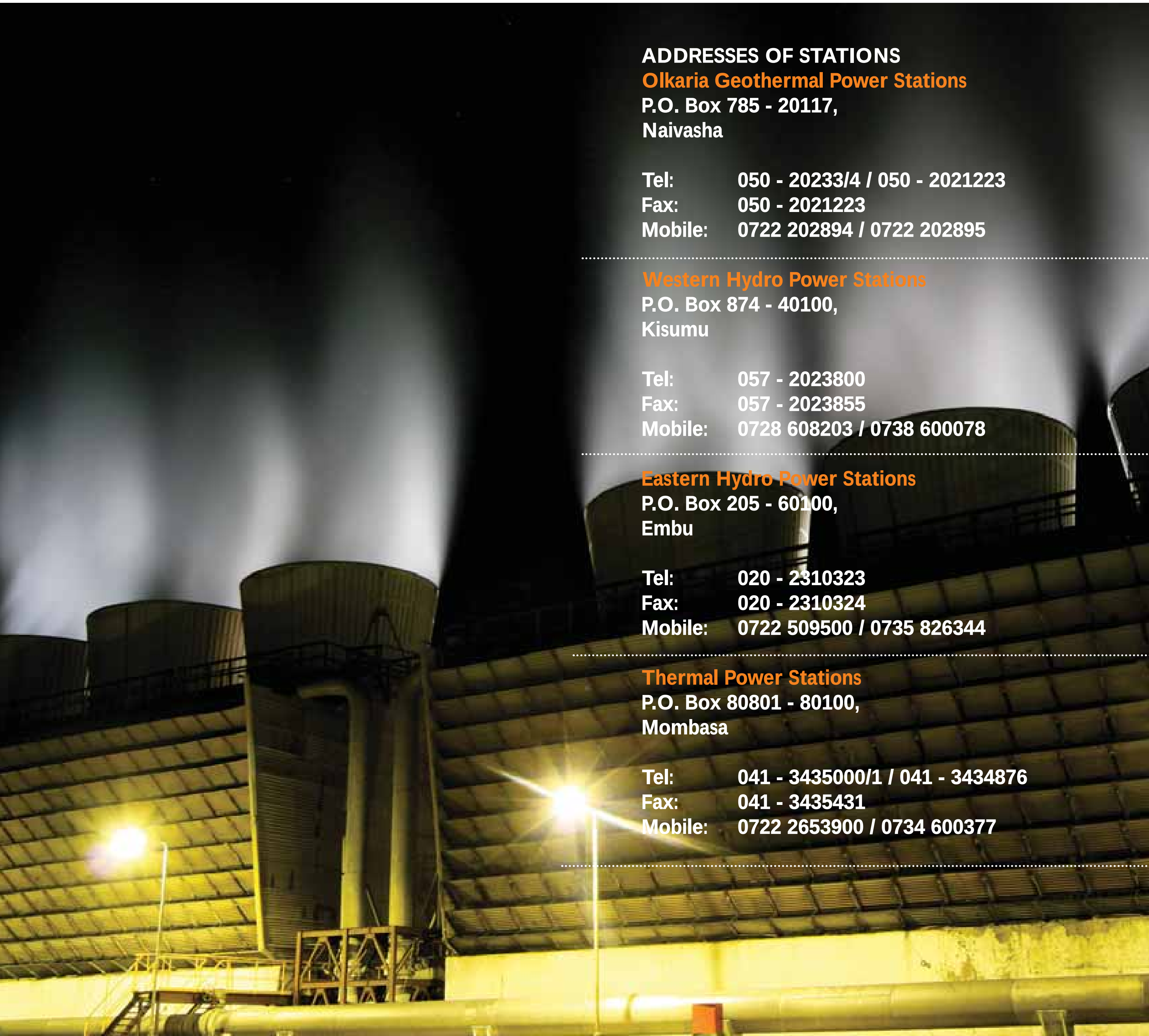
CDS account holders are advised that one may re-activate a dormant account by submitting a duly completed re-activation request and identification documents to their CDA or stockbroker. Account holders are further advised to visit their CDAs or stockbrokers to update their account details and ensure that names, ID or passport number, postal address, email address, mobile phone number(s) and other information is accurately recorded.

Notes

HEAD OFFICE

KenGen Pension Plaza 2
Kolobot Road, Parklands
P. O. Box 47936, 00100 GPO
Nairobi, Kenya

Tel:	+254-20-3666000
Mobile:	+254-711-036000 / +254-732-116000
Fax:	254-20-2248848
E-mail:	pr@kengen.co.ke



ADDRESSES OF STATIONS

Olkaria Geothermal Power Stations

P.O. Box 785 - 20117,
Naivasha

Tel:	**050 - 20233/4 / 050 - 2021223**
Fax:	**050 - 2021223**
Mobile:	**0722 202894 / 0722 202895**

Western Hydro Power Stations

P.O. Box 874 - 40100,
Kisumu

Tel:	**057 - 2023800**
Fax:	**057 - 2023855**
Mobile:	**0728 608203 / 0738 600078**

Eastern Hydro Power Stations

P.O. Box 205 - 60100,
Embu

Tel:	**020 - 2310323**
Fax:	**020 - 2310324**
Mobile:	**0722 509500 / 0735 826344**

Thermal Power Stations

P.O. Box 80801 - 80100,
Mombasa

Tel:	**041 - 3435000/1 / 041 - 3434876**
Fax:	**041 - 3435431**
Mobile:	**0722 2653900 / 0734 600377**

KenGen
Energy for the nation.

HEAD OFFICE

KenGen Pension Plaza 2
Kolobot Road, Parklands
P. O. Box 47936, 00100 GPO
Nairobi, Kenya